AR27

PHILLIPS PETROLEUM COMPANY

1974 Annual Report

ABOUT THE COVER

The deep wildcat well shown, which cost nearly $5,000,000, was used by Phillips and a partner in evaluating a little-explored region in central Utah where Phillips holds about 50,000 net acres.

An oil strike made by the central Louisiana well pictured here was a product of the Company's stepped-up exploration in the U. S.

PHILLIPS IN BRIEF

Phillips Petroleum Company is 30,800 people engaged in every phase of the petroleum industry and in many chemical activities. They work on behalf of millions of customers, 131,600 stockholders, and countless other people who indirectly own a stake in a company with assets exceeding $4 billion.

Phillips search for energy is worldwide. The people of the *Natural Resources* Group, one of the Company's three major operating entities, conduct exploration in more than 20 countries and are responsible for developing and producing the oil and gas found thus far in eight countries. While oil and natural gas have been the focus of the Company's exploratory effort since its founding in 1917, today Natural Resources people also are engaged in the search for and development of new energy sources, including oil shale, coal, and geothermal energy.

The people of the *Petroleum Products* Group operate our U. S. refineries, oversee our refining interests in four other countries, and operate thousands of miles of pipelines plus ships, trucks, and other facilities to distribute the Company's petroleum products. They market these products through some 18,600 outlets.

Chemicals Group people maintain Phillips as a major manufacturer of synthetic rubber, carbon black, polyolefin plastics, cyclohexane for nylon manufacture, and other special hydrocarbons for industrial and laboratory uses. Chemicals Group people also manufacture and sell nitrogen fertilizer, synthetic fibers, fabricated plastic products, packaging, and other specialized products. Their operations are in 16 countries, and their products are sold in more than 80 countries.

The work of the operating groups is enhanced by the efforts of several thousand employees engaged in numerous support functions. Phillips research people, for example, are instrumental in developing the new and improved products, processes, and methods on which the Company's progress is based. For a number of years, Phillips has ranked first among oil companies in the number of U. S. patents issued annually. Our product and process know-how is licensed to others in 28 countries.

highlights

FINANCIAL	1974	1973
Total revenues	$5,105,700,000	$3,073,500,000
Income before cumulative effect of accounting change	$ 429,700,000	$ 230,400,000
Per average share outstanding	$ 5.66	$ 3.05
Net income	$ 402,100,000	$ 230,400,000
Per average share outstanding	$ 5.30	$ 3.05
Return on average total assets	11.2%	6.9%
Dividends paid	$ 110,000,000	$ 98,200,000
Per share	$ 1.45	$ 1.30
Average shares outstanding	75,870,000	75,538,000
Capital expenditures	$ 627,500,000	$ 351,700,000
Total assets at year-end	$4,028,100,000	$3,606,800,000
OPERATING*		
Crude oil and natural gas liquids produced — net barrels daily	361,000	365,000
Crude oil refined — barrels daily	429,000	460,000
Petroleum products sold — barrels daily	648,000	690,000
Natural gas produced — net thousands of cubic feet daily	1,808,000	1,825,000

*Includes operating results, in proportion to the Company's stock interests, of companies for which equity accounting is practiced.

"Phillips," "the Company," "we," and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The Company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held. Where so indicated by footnote, operating data in this report also include the activities, in proportion to the Company's stock interests, of companies for which equity accounting is practiced. Otherwise, such data is excluded.

Marlex, Ryton, Philblack, Loktuft, and Marvess are trademarks for the Company's products named in this report.

CONTENTS

2 Letter to Stockholders
4 Financial Review
6 Natural Resources
14 Petroleum Products
17 Chemicals
20 Research
22 Human Resources
24 Public Affairs
25 Directors, Officers, Managers
26 Financial Statements
33 Ten-Year Statistics

W. F. Martin, Chairman, seated, and Wm. C. Douce, President

to the stockholders

Discussion of the Company's 1974 performance is best prefaced by a review of the events and conditions that made the year an extraordinary one for the petroleum industry.

As the year opened, a near-crisis situation existed in petroleum supplies as the result of the embargo imposed by Arab oil producing nations in the fall of 1973. Supplies began to stabilize after the embargo was lifted in March. But the Arab actions had triggered a rapid escalation in world oil prices, which have since quadrupled.

In the United States, prices of newly discovered crude oil and of some oil from older fields were allowed to rise to competitive world prices. Other domestic oil, about 60% of U. S. production, was held by Federal price control to $5.25 a barrel, less than half the average competitive price.

In trying to cope with the shortage, the Federal Energy Administration imposed a maze of regulations governing allocations and pricing of crude oil and petroleum products. Some of them proved counter-productive to solving supply and price problems. Even when the supply situation eased, they continued to grow in scope and complexity, often were made retroactive for no reasonably defined purpose, and further interfered with market mechanisms.

Domestic demand for petroleum declined about 4% in 1974, reflecting shortages plus widespread energy conservation practices. Imports supplied 36% of the oil used in the U. S. in 1974 compared to 29% just two years earlier. Domestic crude oil production decreased 4%. Supplies of natural gas continued to decline, prompting many industries to seek other fuel sources and causing a number of plant shutdowns and job layoffs. Demands and prices for petrochemicals were strong until mid-year, after which demand for some chemicals began to decline and price softening occurred.

Inflation, which in effect is like another tax, severely affected the petroleum industry in 1974 in substantially higher costs of labor, equipment, and materials. Inflation also has seriously distorted the ways in which a business assesses its financial status. Your Company's recorded net income has increased during most of the past 10 years as more and more capital was invested in the business, and in 1974 was 215% higher than in 1965. But in terms of 1965 dollars, the 10-year increase was 105% — less than half as great — representing an annual compounded earnings growth of only 7.5%.

Operating Results

The exceptional circumstances of the year were reflected in the Company's operating results and made comparisons with prior periods less useful in measuring the results.

Escalated prices increased the profitability of both our domestic crude oil and our growing overseas production. They also greatly increased the cost of crude oil used in our refineries inasmuch as we produced only about half as much oil as we refined. We could not recover all this higher cost in the market.

Government regulatory measures have so shrunk petroleum product margins that our domestic refining and marketing operations were not profitable in 1974. Profits from our entire U. S. petroleum operations — production and refining of crude oil and transportation and marketing of petroleum products — amounted to less than one and four-tenths cents per gallon.

Crude oil production increased slightly. Improved prices for crude oil, natural gas liquids, natural gas, and chemicals were the main reasons your Company earned $429,700,000 or $5.66 a share in 1974. The return on average total assets was 11.2%, but only 7% if adjusted for the general purchasing power of the dollar.

About two-thirds of the Company's 1974 capital expenditures of $627,500,000 were made in the U. S., most of this money going into finding, developing, processing, and marketing energy supplies.

Two increases in stockholder dividends were declared during the year, raising the annual rate 23%.

The higher 1974 earnings enabled us to plan a 1975 capital program of $1,200,000,000, including our share of projects of non-consolidated affiliated companies. Three-fourths of the total is targeted at increasing energy supplies. As in previous years, earnings alone will not finance the entire program. It will require borrowings in addition to reinvestment of all available profits. Whether or not we are able to carry out this program depends on Congressional and regulatory actions affecting capital formation.

Phillips previously announced it was negotiating with a potential buyer for the sale of most of the marketing and refinery properties acquired by the Company in 1966 from Tidewater Oil Company. These properties are the subject of a divestiture order of the Federal courts. The Company has recently decided to enter into discussions for the sale of these properties with additional potential buyers. The

Federal courts and other governmental agencies must approve any sale which is finally negotiated.

Because of expected increased crude oil production from the Norwegian area of the North Sea and Alaska and as a result of its major positions in petrochemicals, the outlook for your Company over the next few years appears favorable.

Domestic Energy Decisions

Early in 1975, President Ford proposed plans to alleviate the nation's energy and economic problems. His energy plan calls for reducing dependence on foreign oil and a stepped-up U. S. search for oil and gas, additional refineries, and greater development of other domestic energy sources such as coal, shale oil, and nuclear power.

There is substantial agreement that the nation must reduce its reliance on foreign oil. Otherwise, we are placing the country's national security and economic destinies in the hands of others.

By 1985, we could be importing half or more of our petroleum requirements if domestic energy production continues to be a low Congressional priority. The cost of petroleum imports totaled $25 billion in 1974, three times the amount paid the year earlier. If the outflow of U. S. dollars for oil is not substantially reduced or offset by exports of other products and services, our currency will continue to decrease in value in world markets where America must buy many other basic raw materials. The result will be further inflation and continued increases in the cost of living.

Dollars exported for oil provide jobs outside the U. S. A program with sound economic incentives to increase domestic supplies of oil would have a two-fold impact on jobs in our country. First, by increasing U. S. expenditures to explore for, produce, process, transport, and market additional supplies of oil and gas, we would create many more jobs in the oil industry and other associated industries. Secondly, as U. S. supplies of oil and gas increase, dollars we otherwise would be paying to foreign countries for oil would be spent in the U. S. This would have the rippling effect of creating more jobs as this money is turned over and over and circulated among local businesses and industries.

Congress has yet to adopt a program that would help reverse the continued trend of declining domestic oil production and increasing imports. On the contrary, most legislation proposed would discourage risk investment to find more oil and gas. Examples are proposals to substantially increase taxes on oil and gas, to roll back domestic prices to fictitiously low levels, and to break up the oil companies so as to make separate businesses out of the different segments such as production, refining, and marketing.

Profits and Investment

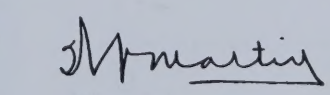
To fulfill its part of the President's program, the domestic oil industry alone would have to spend capital at an estimated average annual rate of $35 billion over the next 10 years compared to about $16 to $17 billion spent in 1974.

Profits are a major source of funds for reinvestment as well as the magnet which attracts outside financing, an increasingly important source of oil industry capital funds. Profits of petroleum companies are generally expected to decline in 1975. But they seem prepared to embark on stepped-up programs to increase energy supplies if actions of Congress or regulatory agencies do not discourage formation of the necessary capital by depressing profits and discouraging outside financing. Such actions will, in the final analysis, hurt the people the industry serves.

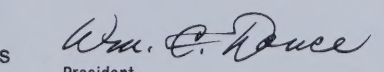
A sound national energy policy is urgently needed, one that places reliance on private competitive enterprise. The policy should: (1) bring about greater conservation of natural resources, (2) permit sufficient capital formation for the energy industries to increase U. S. production of oil and gas and develop other domestic energy sources such as shale oil, coal, thermal, and nuclear energy, (3) reduce the nation's dependence on imported oil, at the same time keeping avenues open for obtaining its minimum foreign oil needs and retaining adequate incentives for American companies to explore for and control oil that would help supply these needs, and (4) start the nation on the road to economic recovery and minimize further inflation.

Formulation of sound national energy and economic policies is not simply an industry-government issue, and it should not be a partisan issue. It involves you — as stockholders, energy consumers, and voters. It is in your interest to let your Congressional representatives know of your considered views regarding the actions you believe they should take. The outcome is vitally linked to your Company's future performance, the availability of your energy supplies, and the well-being of our country.

For the Board of Directors,



Chairman and
Chief Executive Officer



President

March 25, 1975

financial review

FIVE-YEAR SUMMARY OF REVENUES AND EARNINGS

	1974	1973	1972	1971	1970
			(in millions)		
REVENUES					
Petroleum operations —					
United States	$3,318.5	$1,924.5	$1,772.8	$1,685.7	$1,704.2
Outside United States	1,131.9	503.1	255.1	249.9	151.7
Chemical operations	1,486.1	964.7	700.0	605.4	537.2
Intergroup sales	(830.8)	(318.8)	(160.4)	(128.7)	(81.8)
Total revenues	$5,105.7	$3,073.5	$2,567.5	$2,412.3	$2,311.3
EARNINGS*					
Petroleum operations —					
United States	$ 177.9	$ 98.7	$ 103.3	$ 90.7	$ 100.4
Outside United States	82.6	56.9	14.6	21.9	8.9
Chemical operations	169.2	74.8	30.5	19.7	10.6
Total earnings	$ 429.7	$ 230.4	$ 148.4	$ 132.3	$ 119.9

*Before cumulative effect of accounting change (1974) and extraordinary item (1970).

Revenues from operations in the United States were $3,894,500,000 or 76% of total 1974 revenues, accounting for $254,600,000 or 59% of 1974 earnings.

Your Company's earnings for 1974, before the effect of the accounting change by a partly owned company described below, were $429,700,000 or $5.66 per share. This compares with earnings of $230,400,000 or $3.05 per share for 1973.

Net income for 1974 was $402,100,000 or $5.30 per share after deducting a charge of $27,600,000 made against income in the first quarter of 1974 because of the retroactive adoption of deferred tax accounting by Pacific Petroleums Ltd., a 48% owned Canadian company.

Net earnings for 1974 were increased $36,300,000 by sales of investments in Japan and Brazil, and were reduced $34,600,000 by a charge to adjust to estimated realizable value the assets of 94% owned Fibers International Corporation, whose plant in Puerto Rico was closed because of uneconomical operations.

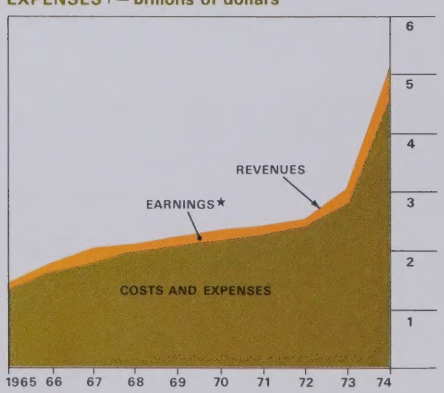
Earnings for the fourth quarter were $84,500,000 or $1.11 a share compared with $86,700,000 or $1.15 a share in the 1973 fourth quarter. Fourth-quarter earnings would have been $93,800,000 or $1.23 a share except for the recording of profit from the sale of investments in Japan and the fibers plant write-down.

Assets at year-end totaled $4,028,100,000, an increase of $421,300,000 during the year. The Company's rate of return on average total assets was 11.2% in 1974, compared with 6.9% in 1973. Domestic operations had a return of 9.5% and foreign operations a return of 15.0% in 1974.

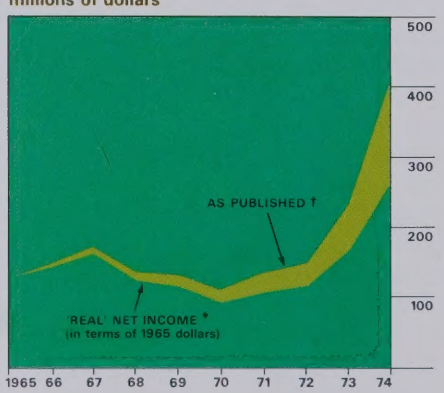
The quarterly dividend rate of 32½ cents per share, which had been paid for the past 23 quarters, was increased to 35 cents per share on January 14, 1974, and to 40 cents per share on October 14, 1974.

Foreign income taxes in 1974 were $205,800,000 and Federal and state income taxes were $150,200,000, together equaling 45% of earnings before income taxes. Other taxes, including property, oil and gas production, and social security, totaled $84,800,000, raising the Company's total direct tax cost to $440,800,000. This amount equals 8.6 cents per dollar of total revenues, or $5.81 per share compared with $1.45 per share paid in dividends to Phillips stockholders in 1974. An additional $259,000,000 in taxes

REVENUES, EARNINGS, COSTS AND EXPENSES† — billions of dollars

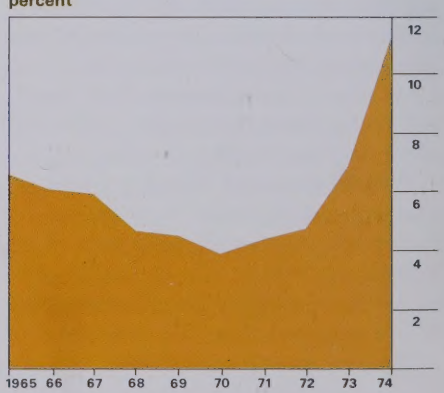


NET INCOME adjusted to 'real' net income millions of dollars



*Based on GNP Deflator. Represents 7½% average annual growth in 'real' net earnings.

RETURN ON TOTAL ASSETS†* percent



†Data for 1967, 1968, 1969, and 1970 have been restated to reflect the adoption in 1971 of equity accounting for investments.

*Before extraordinary items and accounting change.

was collected for city, state, and Federal governments on the sale of gasoline and other products.

Funds from operations were $758,400,000, a 62% increase over 1973. This amount was not enough to cover dividends, debt repayments, capital expenditures, and other requirements. The difference of $251,500,000 was made up mainly by borrowings and sales of assets and stock.

Long-term debt outstanding at year-end, excluding the amount due within one year, totaled $658,200,000, an 18% decrease during the year. Debt repayments in 1974 totaled $225,100,000, while borrowings were $76,900,000.

In 1974, capital expenditures totaled $627,500,000, more than three-fourths higher than the $351,700,000 spent in 1973 and nearly 50% more than 1974 earnings. The 1974 total was distributed as follows: exploration and production 72%, manufacturing 17%, transportation 7%, marketing 2%, and other assets 2%. Geographically, $403,800,000 was applied to U. S. operations and $223,700,000 to foreign.

New credits totaling approximately $116,000,000 have been obtained by the Phillips Group through U. S., U.K., and French export credits to fund the development phase of the Ekofisk area fields. Also, financing arrangements for the Ekofisk transportation system, totaling approximately $314,000,000, were made. The system is owned by four affiliated corporations in which Phillips ownership is less than 50%.

The principal market for trading of the Company's common stock, its only class of voting securities, is the New York Stock Exchange. The high and low sales prices for the common stock on that market and the dividends paid on such stock for each quarterly period during the last two fiscal years are as follows:

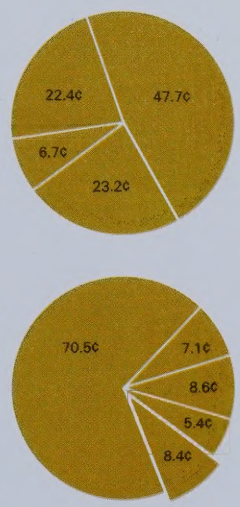
QUARTERLY PERIOD	SALES PRICE PER SHARE High	Low	DIVIDENDS PER SHARE
First — 1973	$47⅝	$40½	$.32½
Second — 1973	54	44⅛	.32½
Third — 1973	59½	50	.32½
Fourth — 1973	70½	57⅛	.32½
First — 1974	71⅜	45¼	.35
Second — 1974	56⅜	48⅝	.35
Third — 1974	49⅜	32½	.35
Fourth — 1974	51	31⅝	.40

Comprehensive financial information, including 10-year financial statements and a 10-year operating review, are presented on pages 26-36 of this report.

"Management's Discussion and Analysis of the Consolidated Statements of Income," covering material changes affecting net income for the latest two years as newly required by the Securities and Exchange Commission, is presented on page 32 of this report.

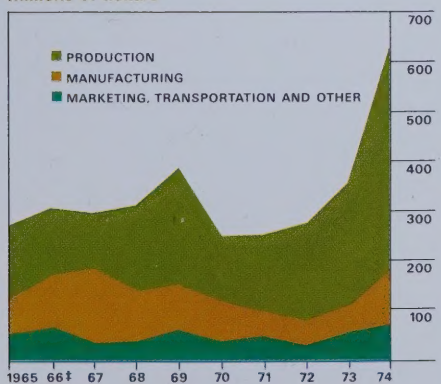
Stockholders can obtain a copy of the Company's annual 10-K Report filed with the Securities and Exchange Commission by writing to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Oklahoma 74004.

SOURCE AND DISPOSITION OF 1974 REVENUE DOLLAR

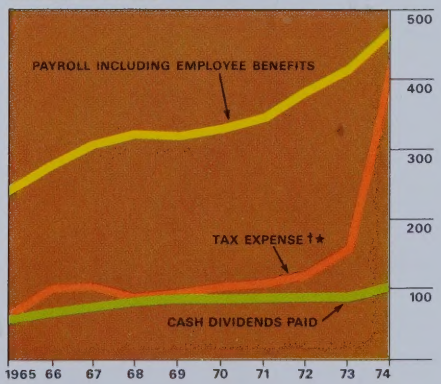


*Before effect of an affiliate's accounting change

CAPITAL EXPENDITURES
millions of dollars

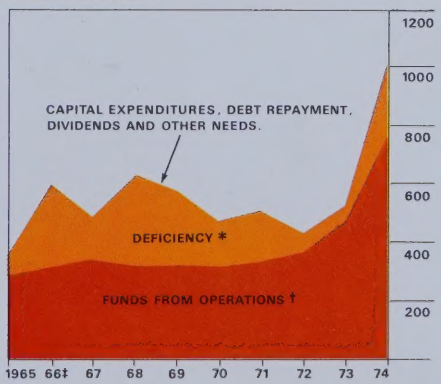


PAYMENTS TO EMPLOYEES, TAXING AGENCIES AND STOCKHOLDERS
millions of dollars



*Before extraordinary items and accounting change.

FUNDS AVAILABLE AND EXPENDED
millions of dollars



*Made up by borrowings and sales of assets and stock.

‡Excludes $308,600,000 for Western U. S. Manufacturing and Marketing properties.

†Data for 1967, 1968, 1969, and 1970 have been restated to reflect the adoption in 1971 of equity accounting for investments.

natural resources

The Company's worldwide search for oil and gas reserves was intensified in 1974 as people of the Natural Resources Group probed new frontiers, both geographical and technical.

Our worldwide search for energy covered a spectrum of climates and locations, including places where few men have ventured. Natural Resources people explored and drilled in the jungles of Indonesia and the Amazon, the deserts of Egypt and Iran, the snow and cold of the Rocky Mountains and the Arctic Circle, the waters of the Gulf Coast and the North Sea, and the plains and valleys of the southwestern U. S.

Thirty-nine oil and gas discoveries were made on Company-interest acreage.

The exploratory risk continued to be great. Of the 149 exploratory wells in which we participated, 110 were dry holes. The cost of this effort is high, both in time and money. The estimated cost of preparing for and drilling the Peruvian exploratory well pictured on the facing page was $4,600,000. It was a dry hole. Shortages of drilling rigs and equipment slowed exploration schedules in some areas.

Our worldwide production of crude oil increased in 1974. New discoveries and acquired production more than offset natural production declines in older fields. Production of natural gas and natural gas liquids decreased.

■ *Oil and Gas Reserves* — At year-end 1974 the Company estimated its owned recoverable petroleum reserves in the United States, excluding the North Slope of Alaska, to be 473 million barrels of liquids (i.e., crude oil, condensate, and natural gas liquids) and 5,617 billion cubic feet of natural gas; and in the rest of the world, 1,315 million barrels of liquids and 7,167 billion cubic feet of gas. While "recoverable" reserves cannot be measured exactly, these estimates include only reserves whose producibility, on the basis of current knowledge, technology, and economics, is considered assured either to a high degree or to a reasonable degree of certainty, and do not include those considered as merely possible or those which may result from extensions of presently includable areas or from new discoveries. Not included in the above are any of the reserves of Pacific Petroleums Ltd., or of any other non-consolidated company.

In addition to the foregoing reserves, by reason of contracts and other arrangements the Company estimates it has available to it in the United States, excluding the North Slope of Alaska, 339 million barrels of liquids and 2,122 billion cubic feet of natural gas.

■ *Discoveries in the U. S.* — Higher prices for oil and natural gas provided incentive for increasing our domestic drilling effort. The Company participated in 89 U. S. exploratory wells in 1974 compared to 65 in the previous year. None of our U. S. discoveries was of major significance, but the resulting additions to our commercial reserves of oil and gas were enhanced by higher prices.

Six natural gas fields were discovered in West Virginia, Oklahoma, Texas, Louisiana, New Mexico,

In the North Sea, oil and gas processing equipment was installed atop the huge concrete storage tank at the Ekofisk production center, development drilling was begun, and an oil pipeline was laid to England and a gas line to Germany.

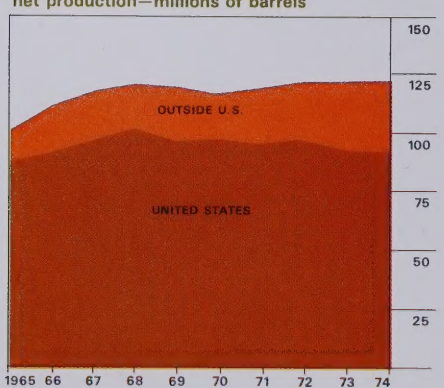
An exploratory well in the remote reaches of the Amazon jungle marked the beginning of our drilling program on a large acreage block in Peru.

and Montana. Three oil discoveries in Louisiana, Wyoming, and Utah tested over 800 barrels, 500 barrels, and 150 barrels of oil per day, respectively.

■ *Overseas Exploration* — In Indonesia, we made two oil finds and a gas discovery in an area covered by a production-sharing contract in which we have a 50% interest. One oil well flowed over 12,000 barrels and the other more than 4,000 barrels per day. The gas well was calculated to have a daily deliverability of 60,000,000 cubic feet of gas with 6,000 barrels per day of gas condensate.

We had a successful year of exploration in Nigeria. Oil and gas discoveries were made on our contract interest areas on five prospects. Early in the year, we reached an agreement with the Nigerian Government through which the government increased its participation to 55% in operations of our contract areas. The change, for which the Company is to be compensated, resulted in a reduction in our participation interest from 33⅓% to 22½%.

CRUDE OIL AND NATURAL GAS LIQUIDS
net production—millions of barrels



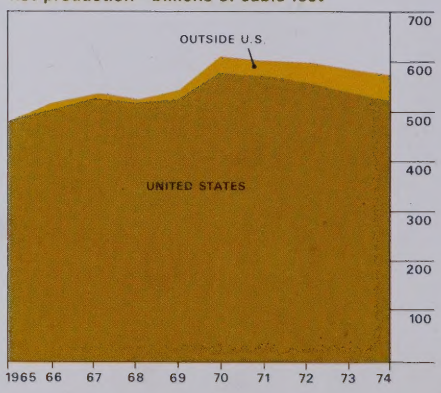
The Maureen Field, discovered in 1973 in the United Kingdom sector of the North Sea, was confirmed with a well that flowed more than 10,000 barrels of oil per day from two pay zones. Phillips has a 34% interest in the field. Also in United Kingdom waters, another company discovered an oil field, named Andrew, which appears to extend into an adjacent acreage block in which we have a 34% interest. The Andrew Field is near the Maureen Field, improving prospects for early development of both since they could be served by common transportation facilities. The commercial significance of these fields, however, is dependent upon future British oil policies.

■ *New Acreage Acquired* — Prospective areas for future exploration were obtained through a 50%

NET OIL AND GAS ACREAGE AT YEAR-END

UNITED STATES	
Total	7,203,000
Developed	1,210,000
OUTSIDE UNITED STATES	
Canada	3,511,000
Latin America	13,012,000
Europe	1,511,000
Africa	13,158,000
Middle East	3,031,000
Southeast Asia	32,086,000
Australia	5,335,000
Total, outside U. S.	71,644,000
Developed, outside U. S.	129,000

NATURAL GAS
net production—billions of cubic feet



DRILLING STATISTICS	Exploratory		Development	
	1974	1973	1974	1973
UNITED STATES				
Gross wells	89	65	490	529
Net wells:				
Oil	5	2	83	86
Gas and gas condensate	8	4	27	48
Dry holes	40	32	26	22
Total	53	38	136	156
OUTSIDE UNITED STATES				
Gross wells	60	57	47	25
Net wells:				
Canada	3	3	1	1
Latin America	2	1	6	—
Europe	3	5	5	—
Africa	7	7	4	8
Middle East	4	3	—	—
Southeast Asia	5	4	—	—
Total	24	23	16	9
Oil	5	7	15	7
Gas and gas condensate	1	3	—	1
Dry holes	18	13	1	1

interest in a production-sharing contract area in the Red Sea, Arab Republic of Egypt, an oil prospecting license offshore Ghana, and an exploration concession offshore Honduras.

■ *Expenditures Rise* — Capital and exploration expenditures to acquire, find, and develop oil and gas reserves were $448,500,000, an increase of 64% over 1973. Dry hole costs comprised $66,981,000 of 1974 expenditures.

■ *New Drillships* — Two self-propelled drillships, including one which is capable of drilling in water

Clean natural gas energy plus a valuable by-product flows from this plant completed near Chatom, Alabama, to process "sour" gas from a recently discovered field nearby and extract large volumes of sulfur contained in the gas.

more than a mile deep, were contracted to be built as part of the Company's growing search for oil and gas in deep ocean waters. The vessels are scheduled for delivery in 1975 and 1976.

■ *New Energy Sources* — In pursuit of additional promising energy sources, we continued our acreage acquisitions and exploration programs for coal, geothermal energy, tar sands, oil shale, and uranium deposits.

At a cost of $52,800,000, we obtained a 50% interest in a large oil shale lease in Utah and have a one-third stock interest in a company owning an adjacent lease. Environmental, economic, and engineering studies are under way to determine the feasibility of constructing a processing plant that could produce 100,000 barrels of synthetic crude oil per day.

Geothermal exploration focused on prospects in California and Nevada. Two geothermal wells were drilled but with no commercial success. We have leaseholds and options on geothermal prospects covering more than 50,000,000 acres in the western U. S.

LIQUID HYDROCARBONS PRODUCED	Net Barrels Daily 1974	1973
UNITED STATES		
Crude oil	123,500	122,300
Natural gas liquids	132,200	134,800
Total U. S.	255,700	257,100
OUTSIDE UNITED STATES		
Crude oil	79,500	78,400
Natural gas liquids	2,600	2,600
Total outside U. S.	82,100	81,000
WORLDWIDE		
Crude oil	203,000	200,700
Natural gas liquids	134,800	137,400
Total worldwide	337,800	338,100

■ *Production Factors* — Production from Company-interest properties in Nigeria increased to 164,600 barrels daily in December as another oil field was tied into the pipeline system to the coast. However, our share of production in this country was reduced when the Nigerian Government assumed greater participation in operations on April 1. Our net daily average production for the year was 32,800 barrels.

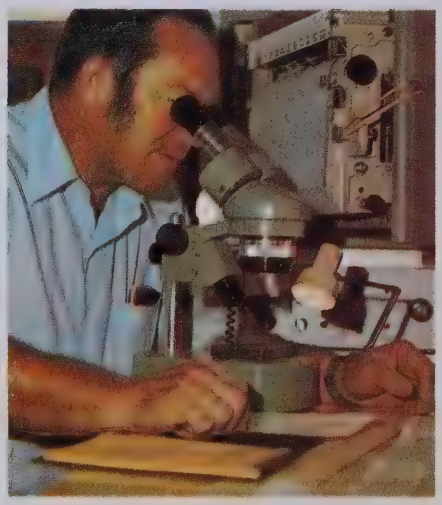
Major steps were taken at Norwegian North Sea facilities to increase output from Ekofisk and bring related fields into production. Major components of the processing equipment were installed atop the million-barrel oil storage tank, and 13 development wells were drilled. However, anticipated increases in production from Ekofisk did not materialize because problems were encountered in starting up the first of two compressors installed to reinject gas into the formation. Tests near year-end indicated the compressor had been successfully modified, and injection of gas is proceeding.

A 274-mile gas pipeline, scheduled for operation in 1976, was laid to Emden, West Germany. A 220-mile crude oil pipeline was laid to Teesside, England. A terminal is being built there to receive the oil starting around mid-1975.

In the U. S., the natural decline in production from older fields was partially counterbalanced by new production from recent discoveries

Helicopter was required to haul materials into rugged area of Utah as part of costly, two-year environmental studies which must precede development of oil shale leases.

Geologist Floyd Slaton conducts on-site examination of rock cuttings from Texas exploratory well.



Extensive exploration in Indonesian waters brought forth three discoveries including a large gas-condensate find at this site.

and purchased properties. Because of higher crude oil prices, 778 marginal wells that would have been abandoned were kept on production and 113 previously idle wells were reactivated. Together these wells produce about 3,300 barrels of oil a day.

■ *Obtaining Better Yields from Producing Fields* — More than one-third of our domestic oil production came from fields where natural gas, steam, water, or other fluids are being injected into the formation. These induced recovery methods, often called "secondary recovery," force out oil that would otherwise be left in the ground. Phillips had an interest in six induced recovery units formed in 1974 and was participating in a total of 393 units or projects at year-end.

Installation of carbon dioxide injection equipment was begun at an Arkansas oil field, with operation scheduled for 1975. More advanced "tertiary" methods of oil recovery were investigated, including chemical injection.

■ *Canadian Affiliate* — Figures in the foregoing tables are for Phillips operations and do not include results of Pacific Petroleums Ltd., a 48% owned Canadian company. Pacific is an integrated company with an active exploration program. During the year, it made nine net oil and gas discoveries and drilled 53 net successful development wells. It produced 46,500 net barrels daily of crude oil and natural gas liquids, 14% less than in 1973. Its natural gas revenues were up 55%.

■ *Natural Gas Revenues Increase* — Our worldwide natural gas revenues increased 20% because of higher domestic gas prices and 24% greater production from wells in the British sector of the North Sea. Domestic natural gas production, however, continued to decline. Domestic gas prices for Phillips averaged 27 cents per thousand cubic feet, about six cents more than in 1973 because of higher prices for gas sold in unregulated intrastate markets and slightly higher prices for federally regulated interstate sales.

The extent to which Federal regulation has held prices for interstate gas sales to unrealistic levels is indicated by some intrastate sales we made during the year at free market prices substantially more than twice the highest prices permitted for federally regulated sales.

■ *Alaskan Gas Sale Arranged* — An agreement was made, subject to Federal Power Commission approval, to sell a substantial volume of liquefied natural gas from our Kenai, Alaska, operations to a gas distributing company in the Pacific Northwest. Completion of arrangements would result in the first delivery of natural gas from Alaska to customers in the lower 48 states on a regular basis. The Kenai plant is currently providing liquefied natural gas for movement to two customers in Japan under a 1967 contract approved by the FPC. The price for this gas was increased to $1.10 per thousand cubic feet in 1974.

PHILLIPS ACREAGE IN THE FAR EAST

PHILLIPS ACREAGE IN SOUTH AMERICA

■ *New Gas Processing Plant* — A plant was completed near Chatom, Alabama, to process gas from a nearby field discovered by Phillips in 1970. The gas posed a technical challenge because its high hydrogen sulfide content made it unusable without extensive processing. Systems at the plant remove from the gas about 170 long tons of sulfur and 1,300 barrels of natural gas liquids daily. Both the sulfur and the liquids, as well as the gas itself, are in high demand.

An oil strike at this site was one of five oil and gas discoveries made in 1974 on Nigerian acreage.

petroleum products

The petroleum processing, supply, and marketing segment of our business was not profitable in 1974 despite higher worldwide petroleum products prices and more efficient operation.

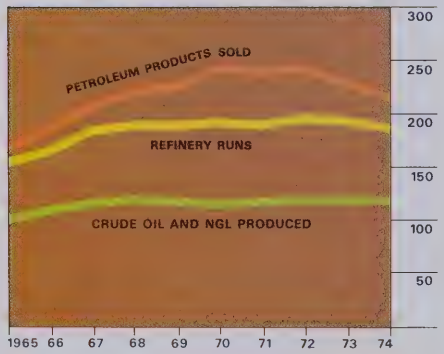
Petroleum products sales volume was lower. Costs increased substantially, but because of competitive conditions and Federal regulations we could not recover all such costs in the marketplace. Federal regulations also continued to hamper our ability to supply our customers.

■ *Crude Oil Supply and Costs* — Domestic crude oil supplies for our refineries decreased in 1974, continuing a trend which started in 1969. Federal government regulations forced us to sell an average of 27,300 barrels a day of our own crude oil supplies to competitors.

To help overcome these problems, we imported more oil. Our two largest inland refineries, at Kansas City, Kansas, and Borger, Texas, ran foreign crude oil for the first time. The oil reached them from Gulf Coast ports through pipelines previously serving other uses.

Foreign crude oil comprised 29% of the crude runs to our plants in 1974 compared to 19% in 1973, and its cost averaged 144% more per barrel. Foreign oil was delivered to U. S. refiners at prices ranging generally from $11.70 to $13.50 a barrel. These compared to a price of $5.25 a barrel for the approximately 60% of domestic oil which was under Federal price control, and prices ranging from $10.00 to $12.30 a barrel for the remaining domestic oil.

PETROLEUM PRODUCTS SOLD, REFINERY RUNS, CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCED—millions of barrels



■ *Progress on Import Facilities* — Phillips must continue to look to imports of crude oil to supply a large share of its refinery needs for many years in the future. We are participating in two major projects to enable us to import more crude oil and transport it to three of our refineries.

One is a pioneering project called "Seadock," a deepwater terminal planned off the Texas Gulf Coast near Freeport to unload very large crude oil carriers. There is no existing U. S. port capable of accommodating such tankers. Phillips is one of a group of 11 companies planning to build Seadock, which will be connected by pipeline to our Sweeny refinery. In December, Congress passed legislation enabling such deepwater ports. Operation of Seadock is planned to start about three years after all other governmental clearances to construct it are obtained.

Seaway Pipeline, which will be connected to Seadock, was organized by seven companies, including Phillips with a 42% interest, in July 1974. It will build a 510-mile, 30-inch diameter common carrier crude oil pipeline from the Texas Gulf Coast to Cushing, Oklahoma, with completion planned by mid-1976. Through connections at Cushing, it will make more foreign crude oil available to inland refineries including ours.

■ *Trans-Alaskan Pipeline* — Good progress was made in 1974 toward constructing the long-delayed pipeline from the North Slope of Alaska, where Phillips has interests in large oil and gas reserves, to the southern Alaskan port of Valdez. The project, which is the most expensive and challenging construction project ever undertaken by private industry, is scheduled for completion in the latter part of 1977.

■ *Refinery Runs at High Levels* — We ran our U. S. refineries at the highest levels possible, considering problems of obtaining crude oil during the embargo early in 1974 and Federal regulations forcing sale of part of our crude oil supplies to others.

U. S. REFINERY RUNS — Crude oil and natural gas liquids

	Barrels Daily	
	1974	1973
Kansas City, Kansas	79,000	87,000
Borger, Texas	175,000	186,000
Sweeny, Texas	148,000	142,000
Woods Cross, Utah	21,000	23,000
Great Falls, Montana	6,000	6,000
Avon, California	94,000	100,000
Total	523,000	544,000

■ *Refining Affiliates* — The Company has stock interests of 50% or less in several companies operating refineries outside the United States. For 1974, our interests in their refinery runs, in proportion to our stock interests, totaled 56,000 barrels a day.

In addition to these refinery runs, average daily naphtha runs were 48,700 barrels in our Puerto Rico

New processing units were installed at Sweeny (right) and Borger refineries to improve removal of sulfur from crude oil and natural gas liquids — a key step in preventing sulfur dioxide pollution from burning of the fuels produced.

chemical complex and 41,300 barrels in 50% owned Petrochim's plant in Belgium.

■ *Alterations to Further Protect Environment* — Changes reflecting our concern for the environment continued to take a large portion of the capital budget for refining operations. For 1974 this portion was 21%.

Equipment was installed at the two catalytic cracking units at the Borger refinery to control emission of catalysts. Facilities at one unit went into operation in 1974 and at the other early in 1975. At the Sweeny refinery, a boiler being installed will convert carbon monoxide, an environmentally undesirable by-product, to harmless carbon dioxide. Heat from the reaction will produce steam, thus saving energy as well as improving the environment.

■ *Unleaded Gasoline Made Available* — Unleaded gasoline, required for 1975 model cars, was made generally available at about 5,300 service stations selling Phillips products by year-end. The Company in 1974 produced about 93,000,000 gallons of unleaded gasoline. Most of this was used to fill transportation and storage systems. Very little was sold. The cost to Phillips to install facilities to supply unleaded gasoline for customers was $37,800,000 for the years 1971-1974.

■ *Petroleum Products Sales Volume Down, Prices Higher* — Our worldwide sales volume of petroleum products declined 6% from 1973 levels due to the general shortage of crude oil and of products for resale.

Average realized prices for all refined products were substantially higher. This was solely the result of recovery in the market of part of our greatly increased costs of raw materials and purchased finished products, as permitted under Federal regulations. Because of competitive conditions, we were unable to recover all of these increased costs. Federal regulations prevented recovery of any of the higher costs of other items of doing business such as labor, repair materials, utilities, interest, and taxes.

PETROLEUM PRODUCTS SOLD	Barrels Daily 1974	1973
UNITED STATES		
Automotive gasoline	286,000	299,000
Aviation fuels	30,000	27,000
Distillates	100,000	95,000
Liquefied petroleum gas	92,000	91,000
Other products	33,000	41,000
Total U. S.	541,000	553,000
OUTSIDE U. S.	60,000	84,000
WORLDWIDE	601,000	637,000

■ *Regulations Impaired Marketing Abilities* — During 1974 we continued to operate under complex and confusing regulations administered by the Federal Energy Administration. These regulations were developed to deal with severe shortages of energy materials in the early months of the year. But they were continued, and many, in fact, made stricter and more complex, even though largely unnecessary. Moreover, mandatory allocation programs during the year dictated to a large extent the use of crude oil supplies obtained for our refineries, the customers we served, the products we sold, and the prices for which we sold them. The multitude of government regulations, and difficulties involved in interpreting and following them, increased our costs of doing business and severely hampered our actions to serve our customers.

People such as Betty Schuerg, Sweeny refinery operator helper, C. W. Mitchell, Kansas City refinery mechanic helper, and Floyd Toliver, San Francisco area marketing representative, carry out the manufacturing and selling of the Company's fuels and lubricants.

chemicals

Results from Chemicals Group worldwide operations contributed significantly to the Company's 1974 earnings. Sales revenues from many of our chemical products reached record levels despite declines in demand for certain products in the latter half of the year.

Revenue from sales of chemicals was $1,184,200,000 in 1974 compared with $807,100,000 in 1973. Not included is our interest in sales of companies owned 50% or less, all outside the United States.

Revenues and prices for most of our chemical products were strong until mid-year. Then demand began to decline for rubber chemicals, later followed by fibers, and some feedstocks and fabricated products. However, for plastics and some other products, the strong first-half trend continued. Production rates at our plants were promptly adjusted to meet the changing conditions.

For the most part, products of the petrochemical industry have been traditionally underpriced as compared to their value to society. These relatively low prices stemmed mainly from an abundant supply of those petroleum hydrocarbons usable either as fuels or as chemical feedstocks. The surfacing of severe energy shortages during the past two years forced the petrochemical sector to compete head-to-head with the energy market for raw material feedstocks. Phillips was able to meet this basic change better than most companies because we supply a higher percentage of the feedstocks required for our petrochemical manufacturing.

■ *Feedstocks and Special Chemicals* — Our worldwide sales revenues for petrochemical feedstocks and special chemicals increased 132% over 1973. These products consist mainly of ethylene, aromatics, high-purity hydrocarbons, petrosulfur compounds, solvents, and drilling mud additives. Declines in demand and prices for some products occurred in the fourth quarter. Marketing of sulfuric acid in the United States was begun.

■ *Phillips Puerto Rico Core Inc.* — This subsidiary operates near Guayama, Puerto Rico, a complex which produces basic chemicals and motor fuel from naphtha, a crude oil derivative. Early in the year Core had problems in obtaining naphtha but these were corrected after the first quarter. New projects were authorized at the complex to produce additional paraxylene and cyclohexane, used mainly for synthetic fiber manufacture.

■ *Fertilizers* — Fertilizer demands from America's farmers continued at high levels. We operated our U. S. fertilizer manufacturing facilities at their maximum capacities throughout the year.

The Company in May sold its 80% interest in Ultrafertil, S. A., which operates a fertilizer complex in Brazil. The sale was to an affiliate of the Brazilian state oil company.

■ *Rubber and Carbon Black* — Worldwide demands for our rubber chemicals were strong during the first half of the year, then slumped during the second half because of changes in the tire market. Demand for tires dropped sharply as new car sales declined and driving generally was reduced.

Wider use was made of our

PRINCIPAL CHEMICAL PLANT EXPANSIONS

PRODUCT	LOCATION	PHILLIPS INTEREST	ADDITIONAL GROSS ANNUAL CAPACITY
COMPLETED DURING 1974			
Carbon black	Bristol, England	50%	8,800,000 pounds
Carbon black	Ravenna, Italy	50%	11,000,000 pounds
Carbon black	Durgapur, India	30%	4,400,000 pounds
Carbon black	Port Elizabeth, S. Africa	50%	17,600,000 pounds
High-density polyethylene*	Houston, Texas	100%	160,000,000 pounds
High-density polyethylene	Antwerp, Belgium	30%	13,200,000 pounds
High-density polyethylene	Le Havre, France	20%	52,900,000 pounds
Polystyrene	Feluy, Belgium	45%	83,800,000 pounds
Sulfur†	Chatom, Alabama	88%	66,400 long tons
Synthetic rubber	Kurnell, Australia	100%	4,900 long tons
UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END			
Butadiene	Tarragona, Spain	45%	110,200,000 pounds
Carbon black	Borger, Texas	100%	27,000,000 pounds
Carbon black	Orange, Texas	100%	20,000,000 pounds
Carbon black	Toledo, Ohio	100%	10,000,000 pounds
Carbon black	Kurnell, Australia	100%	6,600,000 pounds
Carbon black	Candeias, Brazil	35%	72,700,000 pounds
Carbon black	Durgapur, India	30%	17,500,000 pounds
Carbon black	Salamanca, Mexico	39%	13,200,000 pounds
Cyclohexane	Guayama, Puerto Rico	100%	18,400,000 gallons
Ethylene	Antwerp, Belgium	50%	37,500,000 pounds
High-density polyethylene	Houston, Texas	100%	7,000,000 pounds
High-density polyethylene	Antwerp, Belgium	30%	88,200,000 pounds
High-density polyethylene	Puertollano, Spain	45%	77,200,000 pounds
Paraxylene†	Guayama, Puerto Rico	100%	470,000,000 pounds
Propylene	Sweeny, Texas	100%	95,500,000 pounds
Synthetic rubber	Borger, Texas	100%	20,500 long tons
Synthetic rubber	Borger, Texas	25%	10,000 long tons
Synthetic rubber	Salamanca, Mexico	39%	26,600 long tons
Synthetic rubber	Antwerp, Belgium	50%	9,800 long tons
Synthetic rubber	Santander, Spain	45%	29,500 long tons

*Plant can also produce low-density polyethylene.
†New plant.

program under which our experts' knowledge and experience are offered to rubber chemicals customers to help solve environmental problems connected with their operations. Acceptance of this program both helped protect the environment and establish better relations with our customers.

■ *Plastics* — The domestic market for our principal resins, especially Marlex polyethylene, remained strong, while resin sales outside the U. S. declined sharply after mid-year.

A 160,000,000-pound expansion of our polyethylene plant at Adams Terminal near the Houston Ship Channel was placed in operation near year-end. Outside the U. S., high-density polyethylene plant expansions by Phillips and its licensees were completed or under way. These expansions help assure prolonged worldwide availability of high-density polyethylene made by the Phillips process.

Ryton polyphenylene sulfide engineering plastic continued to be of interest to manufacturers worldwide because of its resistance to heat, wear, and corrosion, and other user benefits. However, it has encountered no dramatic short cuts to the usual time-consuming customer test periods experienced by new engineering plastics.

■ *Fibers* — Phillips Fibers Corporation, 80% owned, achieved record highs in production and sales revenues despite adverse effects on demand for its products occurring in the latter part of the year as the result of general economic conditions. Consolidated sales revenues from all fibers operations were up 7% from 1973.

Near year-end, production of nylon carpet and textile yarns and polyester yarn at the Guayama, Puerto Rico, plant of 94% owned Fibers International Corporation, was phased down and the plant was closed early in 1975 because of uneconomical operations.

The "partially oriented" polyester yarn commercially introduced in the last quarter of 1973 provided customers with a more efficient product, and that product comprised most of the production at Phillips Fibers Corporation's Rocky Mount, North Carolina, plant during 1974.

A significant new market for Marvess Olefin III yarn is its use in power-woven area rugs. These decorator rugs are gaining strong consumer acceptance because of their striking colors and designs, and excellent performance at popular prices.

■ *Fabricated Products* — Results improved substantially for our several subsidiaries which produce and market such goods as fabricated plastic and paper products.

Sales revenues from all of our plastic molding plants increased substantially. The plastic fabricating plant in Bartlett, Illinois, was expanded to handle a 66% growth in 1974 of our horticulture ware business, which includes plastic flower pots, planters, and terrariums.

Our plastic pipe, conduit, and duct business set record highs as product sales increased and prices rose. We began production of 36-inch diameter pipe to fill growing needs of mining, industrial plants, municipalities, and utilities for pipe of this large size.

Our plastic compounding plants had increased sales volumes and revenues. The Calumet City, Illinois, compounding plant was expanded.

Our vinyl film plant at Auburn, Pennsylvania, operated generally at capacity during the year, although at times we experienced difficulty in obtaining raw materials.

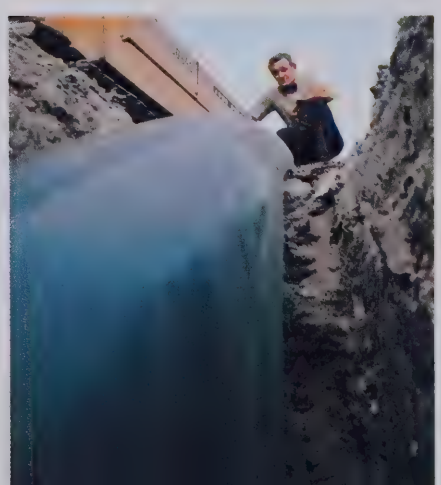
Sealright Co., Inc., which produces packaging materials and machinery, had notably higher sales revenues, although its operations were subject to the critical paper supply shortage existing most of the year.

Our film and paper coating manufacturing subsidiary, H. P. Smith Paper Co., had record sales revenues. A key factor was the strong growth in demand for release paper, one of this company's principal products. Release paper protects the adhesive of pressure-sensitive labels prior to their use.

The diversified markets of Wall Tube & Metal Products Co. provided the base for its satisfactory operating results in 1974. Increased sales of its specialized tubing to industry more than offset a slowdown in demand for its lawn furniture lines. Custom fabricated metal parts sales were adversely affected by the automotive industry's slowdown late in the year.

■ *Sales of Assets* — Besides sale of our interest in Ultrafertil in Brazil, Phillips sold its interests in Showa Denko KK, Showa Yuka KK, and AA Chemical Company, which are Japanese chemical companies.

Old and deteriorating city sewer systems have been economically renewed by inserting liners of Phillips large-diameter polyethylene pipe.



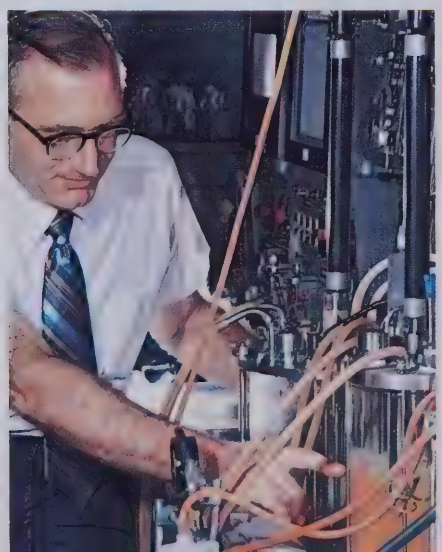
Introduced during the year and sold by leading nationwide department stores, area rugs woven of Phillips Marvess Olefin III yarn offer striking designs and colors with advantages of popular prices, easy care, and long wear.

research

The activities of Phillips research people were highlighted by projects to improve petroleum exploration techniques, perfect new fuel and lubricating oil additives, and develop promising new chemical products and processes. One indicator of their results is that Phillips ranked first among petroleum companies in numbers of U. S. patents issued in 1974 and in U. S. patents owned at year-end.

■ *Exploration Research* — Our scientists originated a system that is expected to increase the productivity of seismic land crews by 50% and decrease recording costs by 10%. The system utilizes radio waves to transmit computerized seismic information between the instruments detecting reflections of shock waves from underground formations and the truck-borne central recording station, eliminating cumbersome transmission cables. It will particularly reduce problems in gathering basic exploration data in such difficult environments as the tropics and the Arctic.

In search of a new food source, a Phillips research team headed by microbiologist Don Hitzman worked on the improvement of a commercial process for growing protein-rich yeasts and bacteria on methanol, a basic petroleum product.



We began a project with another company to further our understanding of how oil moves underground. Petroleum migration has been long recognized as a critical factor leading to the accumulation of oil and gas deposits. The migration occurs as oil under natural pressures is pushed out of the rock layer in which it was formed and moved through porous zones until reaching an impermeable trap — the requisite for an oil field. As a joint effort, the project utilizes the talents of scientists in a variety of fields from both companies. This approach is expected to hasten results that can be implemented profitably in exploration operations.

■ *Fuels and Lubricants Research* — We accelerated our research on reducing engine wear by the use of special additives in motor fuels and lubricants. Wear of engine parts has become more critical because of recent engine design modifications and pollution control additions to meet Federal auto emission standards. Significant progress was made in developing additives that reduce wear in late-model engines as well as in engines expected in the future.

■ *Equipment Research* — Company researchers developed a patented design that solved vibration problems in large heat exchangers used for cooling products from processing operations. The new design eliminates costly maintenance while requiring less energy to perform the cooling function. Utilized in our gas processing operation at Ekofisk Center in the North Sea, the concept has potential application throughout industry.

■ *Product and Process Research* — We started construction of a pilot plant to demonstrate our process for producing protein by growing yeast or bacteria on methanol, a basic petroleum product. Discussions were initiated with several governments in protein-deficient foreign countries to commercialize our process. It could greatly relieve food shortages in such countries.

We produced market development quantities of neohexene, a new chemical used in manufacturing perfume. The process used can be extended to produce a whole family of such chemicals.

■ *Environmental Research* — In preparation for down-the-road requirements of present environmental laws, we moved forward in developing additional water treatment processes to meet the specific needs of some of our refineries and chemical plants.

■ *Patents and Licensing* — For the seventh successive year, Phillips ranked first among oil companies in the number of U. S. patents issued with 360, and in 1974 became the owner of more active U. S. patents than any other oil company with 6,568 at year-end. The Company was also issued 226 patents in 25 countries outside the U. S. For the third successive year, patent and technology licensing income was the highest in our history.

Exploration in rugged terrain is expected to proceed more rapidly and at less cost through a Phillips-originated system that utilizes computer technology in transferring seismic data by radio signals rather than by cumbersome cables.

human resources

The year 1974 was a year of transition to an organizational philosophy and structure to place greater accountability at lower levels in the Company and to more clearly define planning responsibilities. Recognizing that a well-trained and dynamic work force at all levels is basic to the success of the new organization, we intensified programs to attract, develop, and motivate employees with the goal of helping them reach their full career potential.

■ *Career Growth* — The Company's growth and profits are directly related to the competence of our managers. We placed increased emphasis on managerial training and development efforts. Programs were designed to stress early identification of high potential personnel and systems for evaluating managerial performance. In training managers, we focused on the mastering of communication and motivation skills, the basic tools of a good manager. To familiarize top and middle managers with new managerial concepts, we encouraged them to attend university-sponsored executive programs and in-house training courses.

Further steps were taken to provide more and better employment opportunities for racial minorities, women, veterans, and the disadvantaged. Individual counseling programs were begun to provide another means for employees to communicate their career interests and goals. We began computerized assembly of skills inventory data to assist in matching job requirements with employee skills and experience on a Companywide basis. This program helps assure the widest possible consideration when filling a position.

Through our long-standing tuition refund plan, more than 700 employees obtained college education and training during the year. Phillips people also furthered their skills and knowledge through closed-circuit television courses conducted by university professors and information and training materials made available throughout the Company on video tapes.

Our 30,802 employees were at work in 45 countries during the year. In our overseas operations, we continued to stress employment of the citizens of the host nation whenever possible. When specialized skills were required in such countries, locally employed citizens were given training and experience at our facilities in the U. S. Of the 3,000 people on our overseas payroll at year-end, 79% were nationals.

■ *Recruitment* — We broadened our college graduate recruitment program to emphasize the search for talented people with potential for handling the increased complexities of our business. Key executives of the Company assist by making regular contacts with students and faculties at selected universities.

■ *Compensation and Benefits* — Our salary administration and job performance evaluation programs were improved to place more emphasis on individual merit and to assure regular, systematic evaluation and supervisor-worker discussion of job-related factors.

Our medical coverage plan was improved to help alleviate the financial fears of catastrophic illness. We made provisions for increased annuity payments to most of our retired employees.

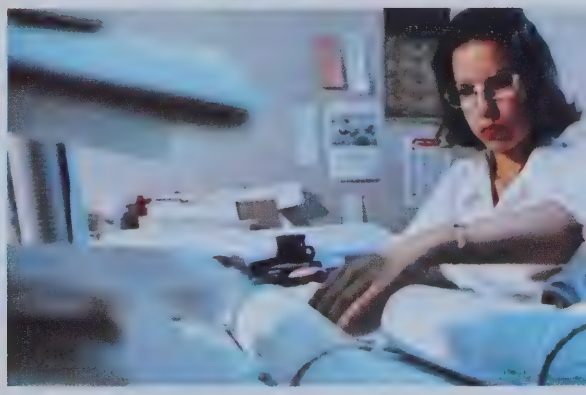
For the first time since adoption of the Thrift Plan in 1953, earnings of Phillips exceeded 10% of its total assets, thus calling for an additional Company contribution of 10 cents per dollar of an employee's deposits during the year.

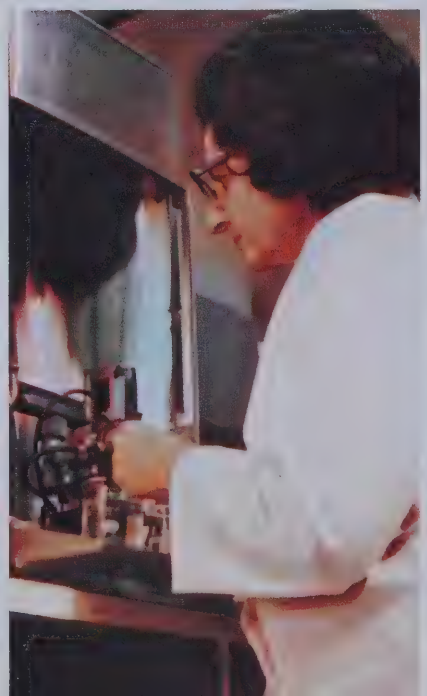
■ *Cost-Saving Suggestions* — More than 3,700 employee ideas for reducing costs and improving operations were adopted through the Suggestion Plan. Measurable savings from these suggestions reached an all-time high. Phillips people strongly supported an "Energize Your Ideas" promotion designed to increase efficiency and reduce energy consumption.

■ *Health and Safety* — The safety record of employees continued its favorable trend with our accident frequency decreasing an additional 13% during 1974. The vehicle accident frequency rose slightly but was below the industry average. We maintained our comprehensive efforts to protect employee health with emphasis on preventative health measures and regular monitoring of working environments.

Maintenance foreman Pablo Pagnucco of Venezuela, left center, won the second largest award in 42-year history of Company's Suggestion Plan for devising an oil-water separation process that permitted recovery of an additional 800 barrels per day of oil from the Morichal Field.

Job opportunities for women continue to broaden, offering greater variety and challenge. Clockwise, Judy Bigby, electrical engineer; Pat Brown, overseas salary administrator; Donna Oliver, assistant producer of Company's new video communications program; Maria Godzina, exploration geophysicist; Sharron Kukas, chemical engineer; Cathy Daughtridge, fibers quality control technician; Pam Phelan, marketing representative; Ruth Merryfield, research chemist; Opal Harned, art director and designer of our annual report.





public affairs

Acknowledging that public understanding is essential to the Company's success, we moved forward on programs designed to inform people about our business and industry, and to improve the Company's corporate citizenship performance.

■ *Information Programs* — In public appearances, press interviews, and publications, Phillips people focused on the seriousness of the nation's shortage of domestic energy supplies and on the need for a national energy policy as the first step in solving energy problems. The need to preserve and strengthen competitive private enterprise was continually stressed.

Employees were armed with information on these matters through broader internal communications which included a new video tape system. It allows management to speak to employees throughout the Company on vital issues.

As an indication of the public's growing interest in energy matters, more than 2,000 groups requested speaking appearances by Company representatives during the year. Many of these presentations were made to high school and college students through a new program tailored to improve communications between business and education.

■ *Community Service* — Phillips people as citizens maintained their traditionally strong interest in and support of community affairs. The Company's policy is to encourage and assist these activities.

As a way of acknowledging employees with outstanding records in community activities, we established a Distinguished Community Service Award Program on July 1. Awards were presented to 70 employees during the remainder of the year.

■ *Youth Assistance* — Through the Phillips Petroleum Foundation, Inc. we distributed some 150 grants, scholarships, and other forms of financial aid to students, educational institutions, and youth organizations in the United States and overseas. We supported national and international swimming meets through our sponsorship of the Amateur Athletic Union senior swimming program.

■ *Environment Protection* — As in previous years, we worked closely with government regulatory agencies with the goal of developing fair and effective standards and means to achieve them. Phillips capital expenditures for environment protection totaled $23,500,000 during the year. Another $24,500,000 went into operation and maintenance of facilities and safeguards.

■ *Energy Conservation* — Company-wide energy consumption was reduced significantly during 1974, with estimated annual savings equivalent to 2,000,000 barrels of oil. Energy-saving techniques ranged from installation of heat recovery systems at plants to reduction of lighting levels in Company offices.

Charles Nipper of Phillips Fibers Corporation's Rocky Mount, North Carolina, plant, became one of the first recipients of the Company's new Distinguished Community Service Award for his key role in creating a program for training and employing welfare mothers.

■ *Advertising* — Our television and magazine advertising focused on Phillips performance as a developer of products which customers do not encounter in the service station but which have wide public benefit. Examples include Philblack, a rubber toughener for tires, and Petromat, a paving underliner that increases the life of asphalt highways.

■ *Publications* — Illustrated below are some publications recently issued by the Company. "The Human Element" and "The Casebook" describe Company policies and actions to (1) enhance employment opportunities and improve societal conditions and (2) protect the natural environment. Copies of these new publications are available upon request, as are extra copies of the pamphlets "Obscene Profits??" and "Are You Being Railroaded?" recently mailed to stockholders. Your request should be addressed to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Oklahoma 74004.

DIRECTORS

Harry D. Brookby,* Executive Vice President Planning and Budgeting

Clark M. Clifford, senior partner in law firm of Clifford, Warnke, Glass, McIlwain & Finney, Washington, D. C.

Wm. C. Douce,* President

John M. Houchin, retired, former Chairman of the Board of Directors

L. H. Johnstone,* Executive Vice President Chemicals Group

C. M. Kittrell,* Executive Vice President Petroleum Products Group

W. F. Martin,* Chairman of the Board of Directors and chief executive officer

Lloyd G. Minter,* Senior Vice President and General Counsel

William Piel, Jr., partner in law firm of Sullivan & Cromwell, New York, New York

W. A. Roberts,* Executive Vice President Natural Resources Group

Robert N. Sears, Senior Vice President

W. Clarke Wescoe, Chairman of the Board of Directors and chief executive officer of Sterling Drug, Inc., New York, New York

*Member Executive Committee

PRINCIPAL OFFICERS AND MANAGERS

(Located in Bartlesville unless otherwise noted)

W. F. Martin, Chairman of the Board of Directors and chief executive officer

Wm. C. Douce, President

NATURAL RESOURCES GROUP

W. A. Roberts, Executive Vice President

Edwin Van den Bark, Vice President Exploration and Production

LeRoy Culbertson, Vice President Group Planning and Budgeting

Kenneth Heady, Vice President Gas and Gas Liquids Division

Jack Tarner, Vice President North America Exploration and Production Division

W. W. Dunn, Managing Director Latin America-Asia Exploration and Production Division

C. J. Silas, Managing Director Europe-Africa Exploration and Production Division (London)

W. R. Bohon, General Manager Energy Minerals Division

B. M. Boyce, Manager Worldwide Drilling and Production

Earl Guitar, Manager International Affairs and Group Administration

A. R. Rehrig, Manager Group Operations Analysis and Control

O. D. Thomas, Manager Worldwide Exploration

PETROLEUM PRODUCTS GROUP

C. M. Kittrell, Executive Vice President

Geo. F. L. Bishop, Vice President Refining Division

John E. Harris, Jr., Vice President Petroleum Supply Division

G. J. Morrison, Vice President Marketing Division

R. S. McConnell, President, Applied Automation, Inc.

C. A. Mink, General Manager Europe-Africa Petroleum Products Division (London)

D. B. Taylor, General Manager Transportation Division

J. E. Arnold, Manager Group Planning and Budgeting

W. E. Barr, Manager Group Administration

B. B. McDonald, Manager Group Operations Analysis and Control

CHEMICALS GROUP

L. H. Johnstone, Executive Vice President

Gary W. Davis, General Manager Petrochemical and Supply Division

A. J. Head, President, Phillips Fibers Corporation (Greenville, South Carolina)

W. D. Payton, General Manager Fertilizer Division

W. L. Phillips, Managing Director International Chemicals

Frank Rendon, General Manager Latin America Region, International Chemicals (Houston, Texas)

R. G. Rhodes, General Manager Rubber Chemicals Division

K. L. Smalley, General Manager Europe-Africa Region, International Chemicals (Brussels, Belgium)

R. G. Wallace, General Manager Plastics Division (Houston, Texas)

C. M. Wilson, General Manager Asia Region, International Chemicals (Hong Kong)

R. G. Askew, Manager Group Planning and Budgeting

R. M. Dixon, Manager Group Administration

W. H. Guthrie, Manager Group Business Promotion

J. H. Presnell, Manager Group Operations Analysis and Control

CORPORATE STAFF HEADS

Harry D. Brookby, Executive Vice President Planning and Budgeting

Lloyd G. Minter, Senior Vice President and General Counsel

Robert N. Sears, Senior Vice President (New York City)

O. W. Armstrong, Vice President and Treasurer

P. M. Arnold, Vice President Research and Development

Sloan K. Childers, Vice President Public Affairs

Glenn A. Cox, Vice President Management Information and Control

Carstens Slack, Vice President Washington Office

W. R. Thomas, Vice President Human Resources

H. D. Trotter, Vice President Engineering and Services

J. W. Davison, Chairman of the Operating Committee

C. H. Trotter, Manager Management Services

OTHER EXECUTIVES

C. J. Roberts, Associate General Counsel

H. B. Stead, Comptroller

Harvey W. Thompson, Secretary

M. L. Collins, Manager Tax, Insurance, and Claims

Kieffer Davis, M.D., Medical Director

R. S. Dickson, Manager Computing

M. R. Hayes, Manager General Services

R. L. Howard, Vice Chairman of the Operating Committee

D. R. Hynes, Manager Purchasing

W. R. Lusbey, Manager Aviation

PHILLIPS PETROLEUM COMPANY

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

		1974	1973
ASSETS	**Current Assets:**		
	Cash, including time deposits	$ 336,597,000	$ 372,970,000
	Short-term investments, at cost	56,887,000	68,162,000
	Notes and accounts receivable — (less reserves: 1974 — $11,360,000; 1973 — $11,592,000)	611,341,000	502,695,000
	Inventories:		
	Crude oil, petroleum products, chemicals, and merchandise	368,959,000	239,032,000
	Materials and supplies	91,915,000	49,851,000
	Total Current Assets	1,465,699,000	1,232,710,000
	Investments and Long-Term Receivables — (less reserves: 1974 — $13,043,000; 1973 — $10,806,000) — Notes 2 and 12	360,473,000	379,801,000
	Properties, Plants, and Equipment, at cost, less reserves — Note 3	2,154,093,000	1,952,258,000
	Prepaid and Deferred Charges	47,847,000	42,004,000
		$4,028,112,000	$3,606,773,000

LIABILITIES AND STOCKHOLDERS' EQUITY	**Current Liabilities:**		
	Notes and accounts payable	$ 542,897,000	$ 400,654,000
	Long-term debt due within one year	39,037,000	60,618,000
	Accrued taxes	264,851,000	117,699,000
	Other accruals	42,200,000	41,780,000
	Total Current Liabilities	888,985,000	620,751,000
	Long-Term Debt — Note 4	658,237,000	799,142,000
	Deferred Credits:		
	Income taxes — Note 5	72,871,000	64,199,000
	Other	66,367,000	63,301,000
	Total Deferred Credits	139,238,000	127,500,000
	Reserve for Contingencies	59,977,000	90,351,000
	Minority Interest in Consolidated Subsidiaries	7,979,000	5,444,000
	Stockholders' Equity:		
	Common stock, $2.50 par value: Shares authorized — 100,000,000 Shares issued — 76,261,836	190,655,000	190,655,000
	Capital in excess of par value of common stock — Note 6	451,325,000	444,024,000
	Earnings employed in the business	1,636,057,000	1,343,927,000
		2,278,037,000	1,978,606,000
	Less treasury stock, at cost — (1974 — 159,629 shares; 1973 — 552,440 shares) — Note 6	4,341,000	15,021,000
	Total Stockholders' Equity	2,273,696,000	1,963,585,000
		$4,028,112,000	$3,606,773,000

PHILLIPS PETROLEUM COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

	1974	1973
Revenues:		
Gross operating revenues	$4,980,704,000	$2,989,952,000
Equity in earnings of nonsubsidiary companies	59,742,000	40,907,000
Other revenues	65,274,000	42,679,000
	5,105,720,000	3,073,538,000
Costs and Expenses:		
Costs and operating expenses	3,583,427,000	2,088,039,000
Selling, general, and administrative expenses	311,552,000	290,505,000
Depreciation, depletion, amortization, and retirements	273,544,000	238,886,000
Taxes other than income taxes* — Note 5	84,809,000	69,011,000
Interest and expense on indebtedness	52,831,000	62,338,000
Unusual items — net — Note 11	13,772,000	—
Provision for income taxes — Note 5	356,008,000	94,348,000
	4,675,943,000	2,843,127,000
Income Before Cumulative Effect of Accounting Change	429,777,000	230,411,000
Cumulative Effect on Prior Years of Accounting Change — Note 12	(27,639,000)	—
Net Income	402,138,000	230,411,000
Earnings Employed in the Business at Beginning of Year	1,343,927,000	1,211,711,000
	1,746,065,000	1,442,122,000
Dividends Paid (1974 — $1.45 a share; 1973 — $1.30 a share)	110,008,000	98,195,000
Earnings Employed in the Business at End of Year	$1,636,057,000	$1,343,927,000
Per Share of Common Stock:		
Income before cumulative effect of accounting change	$ 5.66	$ 3.05
Cumulative effect on prior years of accounting change	(.36)	—
Net income	$ 5.30	$ 3.05

*In addition, taxes of $259,000,000 in 1974 and $287,000,000 in 1973 were collected on the sale of petroleum products and paid to taxing agencies.

PHILLIPS PETROLEUM COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	1974	1973
Funds Provided from Operations Consisted of —		
Income before cumulative effect of accounting change	$ 429,777,000	$ 230,411,000
Non-cash items included in earnings, as follows —		
Depreciation, depletion, amortization, and retirements	273,544,000	238,886,000
Other (including asset write-down — Note 11) — net	55,100,000	48,000
	758,421,000	469,345,000
While Funds Were Expended for —		
Properties, plants, and equipment	617,996,000	328,957,000
Investments	9,547,000	22,726,000
Dividends to Company stockholders	110,008,000	98,195,000
Repayment of long-term borrowings	225,077,000	73,337,000
Other	47,339,000	768,000
	1,009,967,000	523,983,000
Which Left a Deficiency of	$ 251,546,000	$ 54,638,000
This Deficiency Was Financed by —		
Long-term borrowings	$ 76,857,000	$ 80,650,000
Property sales and retirements	91,238,000	24,800,000
Sales of investments	20,492,000	9,551,000
Proceeds from sale of Company stock	17,981,000	11,546,000
Other	9,733,000	19,794,000
Withdrawals from (additions to) working capital	35,245,000	(91,703,000)
	$ 251,546,000	$ 54,638,000
Changes in Components of Working Capital:		
Cash and short-term investments	$ (47,648,000)	$ 102,650,000
Notes and accounts receivable	108,646,000	118,841,000
Inventories	171,991,000	8,026,000
Total current assets	232,989,000	229,517,000
Notes and accounts payable	142,243,000	124,160,000
Long-term debt due within one year	(21,581,000)	7,961,000
Accrued taxes and other accruals	147,572,000	5,693,000
Total current liabilities	268,234,000	137,814,000
Withdrawals from (additions to) working capital	$ 35,245,000	$ (91,703,000)

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheet of Phillips Petroleum Company at December 31, 1974 and the related consolidated statements of income and earnings employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1974 and 1973 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period, except for the change, with which we concur, in accounting for deferred taxes by an equity company, described in Note 12 to the financial statements.

Tulsa, Oklahoma
February 26, 1975

ARTHUR YOUNG & COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES

Principles of Consolidation—The consolidated statements include the accounts of companies owned more than 50%. Investments in companies owned 20% to 50%, inclusive, and in corporate joint ventures are accounted for using the equity method. Investments in other companies are carried at cost.

Foreign Currency Translation — Current assets and liabilities recorded in foreign currencies are translated into dollars at exchange rates in effect at year end. All other foreign assets and liabilities, in general, are translated at exchange rates in effect when acquired or incurred. Revenues, costs, and expenses are translated at approximate rates in effect during the period of the transactions, except for depreciation, depletion, amortization, and retirements, which are translated on the same basis as the related assets. Net unrealized translation losses are charged against income; net unrealized translation gains are credited to a reserve for exchange losses. The same accounting applies for recording unrealized gains and losses on forward exchange contracts. Exchange adjustments arising from these procedures and the Company's exposure from future translation adjustments at December 31, 1974, based on current exchange rates, are not material.

Inventories — Crude oil, petroleum products, and chemicals are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out annual basis. Materials and supplies are priced at average cost or replacement cost, with allowance for condition of used material.

Depreciation and Depletion — Depreciation of properties, plants, and equipment is determined by the group straight-line method, individual unit straight-line method, and the unit of production method, applying the method considered most appropriate for each type of property. Leasehold costs of producing properties and the intangible development costs of productive wells are amortized on the unit of production method based on estimated recoverable oil and gas reserves.

Exploratory Costs — Undeveloped oil and gas leaseholds are capitalized and that portion of the costs applicable to properties which it is estimated will be surrendered is amortized over the estimated holding period. Dry holes and undeveloped lease rentals are expensed. Geological and geophysical costs resulting in the acquisition or retention of leases are capitalized with the remainder being expensed.

Property Dispositions — When complete units of depreciable property are retired or are sold for continued use, reserves are reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of, the difference between asset cost and salvage value is charged or credited to the reserve for depreciation.

Maintenance and Repairs — Maintenance and repairs are charged against income. Major renewals and replacements are charged to property accounts, and the assets replaced are retired.

Investment Tax Credits — The allowable investment tax credit is applied as a reduction of income taxes.

NOTE 2 — INVESTMENTS

Investments at December 31, 1974, include 10,326,321 shares of common stock of Pacific Petroleums Ltd. ("Pacific"), representing 48.41% of the total shares outstanding. These securities had a carrying value of $159,344,000 and a quoted market value of $139,405,000 at December 31, 1974, which does not purport to be realizable value. At the same date, net assets of Pacific in Canadian dollars amounted to $313,945,000, which consists of current assets $119,754,000, net property, plant and equipment $405,592,000, investments $69,712,000, other assets $1,671,000, current liabilities $61,161,000, long-term debt $133,741,000, and provision for future income tax $87,882,000. Earnings of Pacific for 1974 in Canadian dollars were $45,395,000.

NOTE 3 — PROPERTIES, PLANTS, AND EQUIPMENT

The Company's investment in properties, plants, and equipment is summarized as follows:

	December 31	
	1974	1973
Production	$2,433,246,000	$2,071,594,000
Manufacturing	1,264,332,000	1,363,425,000
Transportation	342,756,000	316,191,000
Marketing	264,009,000	274,704,000
Other	106,346,000	98,352,000
	4,410,689,000	4,124,266,000
Less depreciation, depletion, and amortization	2,256,596,000	2,172,008,000
	$2,154,093,000	$1,952,258,000

NOTE 4 — LONG-TERM DEBT

Long-term debt due after one year at December 31, 1974, consists of the following:

7⅝% Debentures Due 2001	$199,175,000
6% Guaranteed Sinking Fund Debentures Due 1981	13,750,000
5½% Guaranteed Swiss Bonds due 1983	13,838,000
Notes payable to banks, insurance companies, and others:	
At 4%-5%, due 1976-1989	28,582,000
At 5⅛%-6½%, due 1976-1991	315,783,000
At 6¾%-12%, due 1976-1984	33,196,000
Purchase obligations	36,020,000
Other	17,893,000
	$658,237,000

Maturities of long-term debt for the next five years are: 1975 — $39,037,000 (included in current liabilities); 1976 — $44,714,000; 1977 — $39,354,000; 1978 — $38,424,000; 1979 — $38,598,000.

Arrangements existed at year end for a subsidiary to borrow an additional $31,233,000 to finance its portion of the development of oil fields in the North Sea. Generally, repayments of such loans would commence in 1976 and continue through 1981.

NOTE 5 — TAXES

	1974	1973
Operating taxes		
Property	$ 31,219,000	$ 30,248,000
Gross production	24,232,000	14,618,000
Social security	18,844,000	17,067,000
Other	10,514,000	7,078,000
	84,809,000	69,011,000
Income taxes		
Federal		
Current	127,553,000	42,830,000
Deferred	8,503,000	(1,307,000)
Foreign		
Current	200,469,000	39,819,000
Deferred	5,378,000	4,022,000
State	14,105,000	8,984,000
	356,008,000	94,348,000
Total taxes charged to income before cumulative effect of accounting change	440,817,000	163,359,000
Excise taxes collected on the sale of petroleum products and paid to taxing agencies	259,000,000	287,000,000
	$699,817,000	$450,359,000

The amount of investment tax credit applied as a reduction of the provision for Federal income taxes was $9,421,000 in 1974 and $10,254,000 in 1973.

Major timing differences for which deferred taxes were recognized in 1974 were the financial write-down of Fibers International Corporation, tax on undistributed earnings of certain subsidiary companies, excess of Federal Power Commission ordered refunds over current accruals, financial gain on sale of securities versus installment treatment for tax purposes, and excess of amortization over actual releases of undeveloped properties. Timing differences in 1973 were not material. The Company's effective income tax rate differs from the Federal statutory income tax rate due to the following reasons:

	Percentage of Pretax Income	
	1974	1973
Federal statutory income tax rate	48.0%	48.0%
Excess of foreign tax over the allowed foreign tax credit	10.4	5.3
U. S. tax deduction for depletion and intangible drilling cost in excess of book provisions	(7.6)	(10.6)
Equity in undistributed earnings of certain companies for which tax has not been accrued because of plans to reinvest earnings and tax savings on dividends received	(2.4)	(7.2)
Other	(3.1)	(6.4)
Effective tax rate	45.3%	29.1%

At December 31, 1974, income taxes have not been accrued on $162,093,000 of the Company's equity in undistributed earnings of certain subsidiaries and corporate joint ventures because of reinvestment plans for such funds.

NOTE 6 — STOCKHOLDERS' EQUITY

During 1974 treasury stock decreased 392,811 shares and capital in excess of par value of common stock increased $7,301,000 as the result of the sale of 382,900 shares to the Thrift Plan Trustee and the distribution of 9,911 shares under the Incentive Compensation Plan.

NOTE 7 — LEASE RENTALS, COMMITMENTS, AND CONTINGENT LIABILITIES

Rentals on leases covering bulk and service stations, tank cars, office space, and other facilities entering into the determination of net income follow:

	1974	1973
Financing leases	$45,310,000	$46,917,000
Other leases	47,859,000	32,812,000
Total rentals	93,169,000	79,729,000
Less subleasing income	25,681,000	28,262,000
Net rentals	$67,488,000	$51,467,000

Contingent rentals included above amounted to $2,845,000 in 1974 and $3,981,000 in 1973, and are generally based on the volume of motor fuel sold through bulk and service stations. Most station leases have renewal options for varying periods at monthly rentals at least equal to the rentals paid during the primary lease term. Some of these leases include purchase options exercisable after a specified number of years.

Basic rental commitments (net of subleasing income) under noncancelable leases at December 31, 1974, the related subleasing income, and present values of non-

capitalized financing lease commitments at December 31, 1974 and 1973, follow:

	Basic Rental Commitments (Net of Subleasing Income)			
	Marketing Properties	Other Properties	Total	Subleasing Income
All leases		(Thousands of Dollars)		
1975	$ 39,480	$ 9,765	$ 49,245	$ 9,900
1976	35,784	9,100	44,884	9,509
1977	26,169	8,294	34,463	8,785
1978	24,262	8,071	32,333	8,254
1979	23,354	6,896	30,250	7,531
1980-1984	101,516	30,941	132,457	25,011
1985-1989	69,801	17,757	87,558	6,478
1990-1994	31,443	2,367	33,810	25
Remaining years	4,295	1,040	5,335	—
Total	$356,104	$ 94,231	$450,335	$ 75,493
Financing leases				
Total commitments	$339,861	$ 80,644	$420,505	$ 61,197
Present values:				
December 31, 1974	$219,958	$ 53,168	$273,126	$ 48,170
December 31, 1973	$245,136	$ 55,689	$300,825	$ 56,819

The weighted average interest rate used in determining the present values was 6.3% for both 1974 and 1973, with rates ranging from 2.8% to 10.0% for 1974 and 2.8% to 9.8% for 1973.

The effect upon net income of capitalizing all noncapitalized financing leases is not presented since it is less than three percent of the average net income for the most recent three years.

At December 31, 1974, the Company was contingently liable for $137,191,000 of obligations of other companies. In addition, the Company has contingent liabilities with respect to claims and commitments arising from agreements with pipeline companies in which it holds stock interests whereby it may be required to provide such companies with additional funds through advances against future charges for transportation of crude oil or petroleum products. In connection with the generation in foreign transactions over a period of time several years ago of a cash fund, part of which was used for political contributions, events subject to U. S. taxation may have occurred which were neither reflected on the books of the Company nor as to which taxes were paid. Following voluntary disclosures in October 1973 to the Internal Revenue Service, it commenced an investigation to determine whether there may have been violations of the tax fraud and allied provisions of the Internal Revenue Code. That investigation is continuing, and has not been limited to the circumstances surrounding the generation of the cash fund and the making of political contributions. A number of suits are pending in various courts in which the parent company or a subsidiary appears as plaintiff or defendant, including a federal antitrust proceeding seeking to force divestiture of the properties acquired from Tidewater Oil Company in July 1966. In this suit the court has ruled that such acquisition violated the antitrust laws and some divestiture will be required, and, has directed the Company to submit a plan of divestiture to the court for its approval by March 24, 1975.

While the aggregate contingent liability may be appreciable, the Company is of the opinion that any such liability for which provision has not been made will not have a materially adverse effect on its financial position.

NOTE 8 — RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all of their employees. These plans are being funded based on pension costs accrued as determined by actuarial studies. Charges to income for such plans were $27,186,000 for 1974 and $18,613,000 for 1973. The increase in costs is primarily due to revising certain of the actuarial assumptions for the parent company's plan and changing the amortization period for prior service costs for such plan from 25 to 10 years. No change was made in the 25 year amortization period for prior service costs of subsidiaries' plans. Effective January 1, 1975, the parent company's plan was revised to eliminate all employee contributions, to broaden the earnings base used in the computation of retirement income, and to liberalize the refund schedule. These changes will result in an estimated increase in annual Company contributions of $10,000,000.

NOTE 9 — INCENTIVE COMPENSATION PLAN

Under the Company's Incentive Compensation Plan, adopted in 1965, a provision of $3,063,000, which was substantially less than the maximum permitted under the plan, was made against 1974 earnings in anticipation of awards to key employees in 1975. Earnings in 1973 included a provision of $1,636,000 from which awards totaling $1,463,000 were made in 1974.

NOTE 10 — FOREIGN

The balance sheets include net assets applicable to operations in foreign countries in the approximate amounts of $949,054,000 for 1974 and $779,000,000 for 1973. Earnings from such operations were $175,124,000 (before accounting change) for 1974 and $89,304,000 for 1973.

NOTE 11 — UNUSUAL ITEMS

In early 1975 the only plant of Fibers International Corporation, a 94% owned subsidiary operating in Puerto Rico, was closed because of uneconomical operations. A charge of $62,569,000 before applicable income tax

credit of $27,975,000 was made against 1974 earnings to reduce the carrying value of these assets to estimated realizable value.

During 1974 the Company sold its interests in three chemical companies in Japan and a fertilizer company and several liquefied petroleum gas and related companies in Brazil. The profit realized from these sales aggregated $48,797,000 before applicable income tax of $12,466,000.

NOTE 12 — ACCOUNTING CHANGE BY AN EQUITY COMPANY

A Canadian company which is accounted for by the equity method adopted deferred tax accounting on a retroactive basis in accordance with recommendations of the Canadian Institute of Chartered Accountants. In March 1974 the various provincial securities commissions adopted such recommendations. Accordingly, as provided in APB Opinion No. 20, the Company's equity in the undistributed earnings of the Canadian company was reduced $32,848,000 which necessitated the reversal of $5,209,000 of the Company's deferred taxes associated with such earnings. If the accounting change were applied retroactively, net income for 1974 would be $429,777,000 or $5.66 a share and the effect on 1973 and prior years would not be material.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31, 1974

The Company's earnings for 1974, before cumulative effect of an accounting change, increased $199,366,000 or 87% over 1973. Domestic earnings, which accounted for $254,653,000 or 59% of total 1974 earnings, were up $113,546,000 or 80%. Foreign earnings amounted to $175,124,000 and were up $85,820,000 or 96%. The improved earnings were primarily due to higher prices for crude oil, natural gas liquids, natural gas, and chemicals.

Total revenues increased $2,032,182,000 or 66% including $1,990,752,000 for gross operating revenues, primarily as the result of higher prices partially offset by lower sales volumes. Equity in earnings of nonsubsidiary companies was up $18,835,000 due to improved earnings of foreign affiliates. Other revenues increased $22,595,000 mainly due to higher interest income.

Total costs and expenses increased $1,832,816,000 or 64%. This can be attributed principally to the effects of inflation since the business of the Company, measured in terms of volume of products produced, refined, and sold, was generally less than for 1973. Of the total increase, costs and operating expenses accounted for $1,509,160,000 including a net charge of $13,772,000 against 1974 operations for unusual items, which are explained in Note 11 on page 31. Selling, general, and administrative expenses increased $21,047,000. Charges for depreciation, depletion, amortization, and retirements were $34,658,000 higher, of which $29,615,000 was reflected in dry hole costs. Taxes other than income taxes were up $15,798,000, primarily because of taxes levied on the production of crude oil and natural gas.

Interest and expense on indebtedness decreased $9,507,000, the result of a decline of $162,486,000 in long-term debt during the year. The provision for income taxes was $261,660,000 higher, with increases of $162,006,000 for foreign taxes and $99,654,000 for U. S. taxes. The increased taxes are primarily due to increased earnings subject to tax and increased rates in some foreign countries.

Year Ended December 31, 1973

The Company's earnings for 1973 were up $81,983,000 or 55% over 1972. Of total 1973 earnings, domestic operations accounted for 61% or $141,107,000, an increase of $15,399,000 or 12%. Foreign earnings accounted for $89,304,000 of total earnings, an increase of $66,584,000 or 293%. The 1973 increase in total earnings was primarily due to higher prices and increased production of foreign crude oil, greater contributions from foreign chemical plant operations and sales, increased prices and sales volumes for most domestic chemical products, and higher revenues from tanker operations. Petroleum products sales volumes were lower because of shortages of crude oil supplies and products normally purchased for resale. Prices of crude oil and petroleum products were higher.

Total revenues increased $506,008,000 or 20% including $477,210,000 for gross operating revenues which was the result of increased prices and sales volumes for most domestic chemical products, higher prices for petroleum products and crude oil, and greater tanker revenues. A short supply of crude oil and products normally purchased for resale resulted in lower sales volumes for petroleum products. The Company's equity in earnings of nonsubsidiary companies increased $19,420,000 because of better earnings by foreign equity companies. A $9,378,000 increase in other revenues resulted from higher interest income.

Total costs and expenses increased $424,025,000 or 18%. This was reflected mainly in higher volumes of and prices for crude oil purchases, and in higher expenses with costs and operating expenses accounting for $377,028,000 of the increase. The provision for income taxes was up $30,191,000, with increases of $22,735,000 for foreign taxes and $7,456,000 for U. S. taxes. The increase in taxes resulted from higher earnings which, with respect to U. S. taxes, were reduced by income exempt under Section 931 of the Internal Revenue Code, and greater deductions for intangible development costs and depletion.

TEN-YEAR FINANCIAL REVIEW (dollars in millions, except per share amounts)

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31										
Assets										
Current assets:										
Cash and short-term investments	$ 393.5	$ 441.1	$ 338.5	$ 225.1	$ 137.1	$ 187.4	$ 135.4	$ 147.1	$ 176.2	$ 93.9
Notes and accounts receivable, less reserves	611.3	502.7	383.8	382.8	410.6	392.3	388.3	351.5	303.2	219.4
Inventories:										
Crude oil, petroleum products, and chemicals	355.7	225.9	231.2	240.5	212.6	217.6	220.3	203.9	191.1	134.1
Merchandise	13.3	13.1	14.6	18.7	21.9	24.1	21.5	24.3	27.1	17.9
Materials and supplies	91.9	49.9	35.1	36.1	35.7	31.2	29.6	30.8	31.5	25.5
Total current assets	1,465.7	1,232.7	1,003.2	903.2	817.9	852.6	795.1	757.6	729.1	490.8
Investments and long-term receivables, less reserves	360.5	379.8	377.8	391.8	361.6	383.5	332.1	317.8	311.7	309.3
Properties, plants, and equipment, less reserves	2,154.1	1,952.3	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9	1,208.7
Prepaid and deferred charges	47.8	42.0	30.8	33.7	41.5	39.9	36.4	29.6	32.4	20.3
Total assets	4,028.1	3,606.8	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1	2,029.1
Liabilities and stockholders' equity										
Current liabilities:										
Notes and accounts payable	$ 542.9	$ 400.7	$ 276.5	$ 254.5	$ 280.3	$ 251.1	$ 266.8	$ 265.8	$ 253.8	$ 160.3
Long-term debt — due within one year	39.0	60.6	52.7	52.2	106.1	75.9	47.1	49.9	180.9	3.5
Accrued taxes	264.9	117.7	113.1	102.5	114.5	119.7	87.5	86.3	102.5	59.0
Other accruals	42.2	41.8	40.6	36.1	28.9	27.9	27.5	27.7	34.6	20.8
Total current liabilities	889.0	620.8	482.9	445.3	529.8	474.6	428.9	429.7	571.8	243.6
Long-term debt	658.2	799.1	791.8	800.2	687.9	787.4	655.2	690.0	660.3	333.7
Deferred income taxes	72.9	64.2	61.5	63.0	57.3	59.7	68.4	70.9	62.8	86.8
Other deferred credits	66.3	63.3	41.9	41.8	36.3	51.7	63.5	61.2	46.7	45.6
Reserve for contingencies	60.0	90.4	67.0	60.7	57.4	50.5	45.2	27.6	29.9	24.2
Minority interest in consolidated subsidiaries	8.0	5.4	4.7	6.5	9.9	21.1	15.6	15.9	11.9	—
Stockholders' equity:										
Common stock, $2.50 par value	190.7	190.7	190.6	190.5	190.3	190.3	189.7	179.6	173.2	172.3
Capital in excess of par value of common stock	451.3	444.0	440.8	437.2	433.3	433.3	427.4	329.2	271.9	264.2
Earnings employed in the business	1,636.0	1,343.9	1,211.7	1,160.9	1,125.4	1,110.4	1,076.5	1,067.9	961.1	918.2
	2,278.0	1,978.6	1,843.1	1,788.6	1,749.0	1,734.0	1,693.6	1,576.7	1,406.2	1,354.7
Less treasury stock	4.3	15.0	23.3	39.4	56.1	56.6	56.9	57.3	58.5	59.5
Total stockholders' equity	2,273.7	1,963.6	1,819.8	1,749.2	1,692.9	1,677.4	1,636.7	1,519.4	1,347.7	1,295.2
Total liabilities and stockholders' equity	4,028.1	3,606.8	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1	2,029.1
Stockholders' equity per share*	$ 29.88	$ 25.94	$ 24.14	$ 23.40	$ 22.86	$ 22.66	$ 22.18	$ 21.79	$ 20.08	$ 19.41
PROPERTIES, PLANTS, AND EQUIPMENT										
Gross investment										
Production	$2,433.3	$2,071.6	$1,903.0	$1,796.4	$1,749.5	$1,729.6	$1,587.8	$1,495.9	$1,460.6	$1,390.7
Manufacturing	1,264.3	1,363.4	1,314.4	1,284.6	1,229.7	1,165.1	1,112.8	1,065.2	967.6	669.9
Transportation	342.8	316.2	286.2	276.1	279.7	278.6	276.1	271.6	272.2	195.3
Marketing	264.0	274.7	314.3	326.5	337.5	329.7	323.4	346.9	347.7	188.4
Other	106.3	98.4	96.2	95.9	96.4	93.1	93.4	88.4	97.2	79.8
	4,410.7	4,124.3	3,914.1	3,779.5	3,692.8	3,596.1	3,393.5	3,268.0	3,145.3	2,524.1
Net investment										
Production	$1,188.8	$ 919.8	$ 816.4	$ 756.7	$ 743.2	$ 745.5	$ 651.3	$ 598.4	$ 593.3	$ 600.8
Manufacturing	566.7	649.0	661.8	684.8	682.9	668.9	660.2	644.0	567.9	323.7
Transportation	169.3	152.0	126.5	125.6	135.2	142.8	146.9	150.9	161.2	101.5
Marketing	178.0	185.5	205.6	221.2	237.5	237.8	238.0	265.6	274.4	137.0
Other	51.3	46.0	47.5	49.7	51.7	51.4	53.5	50.8	61.1	45.7
	2,154.1	1,952.3	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9	1,208.7

*Adjusted for two-for-one stock split in 1969.

Note — Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

Note — In 1973 the valuation method for inventories of certain petroleum products and chemicals, previously calculated on the last-in, first-out monthly basis, was changed to the last-in, first-out annual basis.

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
CONSOLIDATED STATEMENTS OF INCOME										
Gross operating revenues:										
Petroleum products	$2,433.4	$1,388.7	$1,233.7	$1,188.2	$1,146.2	$1,067.8	$1,044.2	$ 999.0	$ 868.7	$ 682.3
Chemicals	1,184.2	807.1	589.6	495.0	477.2	472.7	446.6	398.2	357.2	306.7
Crude oil	927.2	416.5	327.2	320.8	293.2	338.0	304.4	276.9	253.8	213.3
Natural gas (including helium)	216.6	183.9	180.4	169.3	165.2	137.8	133.8	137.5	129.9	122.3
Other sales and services	219.3	193.8	181.8	189.9	191.3	185.7	177.9	170.0	150.7	126.1
Total gross operating revenues	4,980.7	2,990.0	2,512.7	2,363.2	2,273.1	2,202.0	2,106.9	1,981.6	1,760.3	1,450.7
Other revenues (including equity in earnings of nonsubsidiary companies)	125.0	83.5	54.8	49.1	38.2	30.0	20.3	31.7	24.1	14.0
Total revenues	5,105.7	3,073.5	2,567.5	2,412.3	2,311.3	2,232.0	2,127.2	2,013.3	1,784.4	1,464.7
Costs and operating expenses	3,597.2	2,088.0	1,711.0	1,615.3	1,541.2	1,486.7	1,410.4	1,276.1	1,124.6	942.3
Selling, general, and administrative expenses	311.6	290.5	298.1	288.3	288.0	270.5	267.9	245.9	223.8	166.9
Depreciation, depletion, amortization, and retirements	273.6	238.9	223.1	201.3	198.4	195.1	187.0	170.1	158.1	140.9
Taxes other than income taxes	84.8	69.0	63.9	59.7	57.6	53.8	51.8	49.3	42.3	33.7
Interest and expense on indebtedness	52.8	62.3	58.8	62.6	54.2	49.6	40.5	43.0	32.0	15.0
Provision for income taxes	356.0	94.4	64.2	52.8	52.0	46.2	42.7	64.4	65.2	38.2
Total costs and expenses	4,676.0	2,843.1	2,419.1	2,280.0	2,191.4	2,101.9	2,000.3	1,848.8	1,646.0	1,337.0
Income before extraordinary items and accounting change	429.7	230.4	148.4	132.3	119.9	130.1	126.9	164.5	138.4	127.7
Extraordinary items and accounting change	(27.6)	—	—	—	(8.7)	—	6.9	—	7.1	—
Net income	402.1	230.4	148.4	132.3	111.2	130.1	133.8	164.5	145.5	127.7
Per average share outstanding:*										
Income before extraordinary items and accounting change	$ 5.66	$ 3.05	$ 1.98	$ 1.78	$ 1.62	$ 1.76	$ 1.74	$ 2.38	$ 2.07	$ 1.91
Net income	$ 5.30	$ 3.05	$ 1.98	$ 1.78	$ 1.50	$ 1.76	$ 1.83	$ 2.38	$ 2.18	$ 1.91
Dividends per share*	$ 1.45	$ 1.30	$ 1.30	$ 1.30	$ 1.30	$ 1.30	$ 1.27½	$ 1.17½	$ 1.10	$ 1.02½
Income before extraordinary items and accounting change:										
As percent of average total assets	11.2	6.9	4.6	4.3	3.9	4.4	4.5	5.9	6.0	6.5
As percent of total revenues	8.4	7.5	5.8	5.5	5.2	5.8	6.0	8.2	7.8	8.7
Percent of total revenues from outside U. S.	23.7	21.5	16.1	17.4	13.4	12.2	11.1	9.3	8.9	9.0
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION										
Source										
Funds from operations	$ 758.4	$ 469.3	$ 367.4	$ 332.7	$ 316.6	$ 317.4	$ 317.5	$ 339.5	$ 303.8	$ 281.3
Long-term debt	76.9	80.6	49.7	257.0	10.0	210.9	152.0	136.1	432.0	77.6
Property sales and retirements (including extraordinary items)	91.2	24.8	28.6	43.7	31.1	27.1	47.9	55.3	14.7	8.0
Sales of investments (including extraordinary items)	20.5	9.6	26.2	14.3	23.1	5.3	32.9	19.7	19.6	4.9
Capital stock	18.0	11.6	19.8	20.8	.5	6.8	108.7	64.9	9.6	(6.2)
Other	9.7	19.8	4.0	6.5	2.8	17.4	8.0	44.8	.7	1.6
	974.7	615.7	495.7	675.0	384.1	584.9	667.0	660.3	780.4	367.2
Application										
Properties, plants, and equipment:										
Production	$ 450.6	$ 245.0	$ 196.0	$ 143.3	$ 132.3	$ 207.3	$ 171.6	$ 117.5	$ 136.0	$ 144.8
Manufacturing	105.5	49.7	48.5	58.3	74.5	77.8	85.0	136.3	230.9	50.5
Transportation	38.0	24.8	11.4	7.8	6.2	6.5	8.5	1.3	68.6	5.3
Marketing	13.9	6.7	6.1	11.3	20.7	21.8	17.4	19.1	125.6	26.3
Other	10.0	2.8	2.7	4.3	5.7	3.2	6.7	5.6	18.6	5.5
Total	618.0	329.0	264.7	225.0	239.4	316.6	289.2	279.8	579.7	232.4
Investments	9.5	22.7	6.2	23.2	7.2	66.1	18.9	18.0	32.4	31.7
Reduction in long-term debt	225.1	73.3	58.1	144.7	109.5	78.8	186.8	106.4	185.8	4.5
Cash dividends	110.0	98.2	97.6	96.8	96.3	96.2	92.7	81.1	73.5	68.6
Other	47.3	.8	6.7	15.6	21.6	15.4	41.1	4.4	31.3	7.2
Increase (decrease) in working capital	(35.2)	91.7	62.4	169.7	(89.9)	11.8	38.3	170.6	(122.3)	22.8
	974.7	615.7	495.7	675.0	384.1	584.9	667.0	660.3	780.4	367.2

*Adjusted for two-for-one stock split in 1969.

Note — Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
REVENUES FROM CHEMICALS										
Feedstocks and special chemicals	$ 420.8	$ 181.7	$ 131.7	$ 112.1	$ 130.5	$129.2	$113.3	$ 94.1	$ 84.0	$ 78.2
Rubber chemicals	172.5	111.4	91.7	83.7	72.1	69.6	70.2	59.4	62.6	58.8
Synthetic fibers	161.4	151.1	103.2	70.2	57.6	59.3	50.1	31.8	7.0	—
Fertilizers	160.0	158.0	100.6	90.9	71.8	69.3	67.5	74.1	82.6	59.7
Fabricated products	138.5	110.0	100.0	86.6	94.0	95.3	103.7	105.8	90.5	85.7
Plastic resins	131.0	94.9	62.4	51.5	51.2	50.0	41.8	33.0	30.5	24.3
	1,184.2	807.1	589.6	495.0	477.2	472.7	446.6	398.2	357.2	306.7
OTHER DATA										
Shares outstanding at year end — thousands*	76,102	75,709	75,387	74,741	74,062	74,041	73,776	69,717	67,118	66,739
Number of stockholders at year end	131,621	135,966	153,292	166,012	172,979	157,052	145,665	139,670	139,224	137,739
Total payroll including employee benefits	$ 478.9	$ 415.1	$ 387.3	$ 352.8	$ 335.0	$ 326.8	$ 328.9	$ 312.3	$ 281.8	$ 248.9
Number of employees at year end	30,802	33,429	35,265	33,280	32,208	32,660	35,359	35,724	34,667	29,873

*Adjusted for two-for-one stock split in 1969.

TEN-YEAR OPERATING REVIEW

NET PRODUCTION OF LIQUID RAW MATERIALS — thousands of barrels daily

Crude Oil										
United States										
Texas	56.3	57.7	57.7	54.9	54.6	51.8	53.7	54.4	52.8	51.5
Louisiana	19.6	21.5	23.3	24.8	29.6	28.1	29.3	28.3	24.9	18.7
Oklahoma	11.8	13.7	17.5	15.6	15.5	16.2	17.7	20.0	22.4	23.7
New Mexico	7.4	8.0	9.0	9.8	10.4	10.3	10.3	10.1	10.3	9.2
Wyoming	4.5	2.0	2.7	3.7	6.3	6.2	3.6	3.3	2.6	2.3
Alaska	4.1	4.7	4.5	5.5	5.6	6.9	8.9	3.9	.2	—
Kansas	3.6	2.2	2.0	2.2	2.5	2.8	3.2	3.6	4.1	4.4
Other states	16.2	12.5	13.5	13.6	14.4	15.3	13.2	11.2	10.6	10.5
	123.5	122.3	130.2	130.1	138.9	137.6	139.9	134.8	127.9	120.3
Outside United States										
Africa	38.1	35.5	23.2	25.5	20.0	40.0	30.1	25.4	23.1	5.6
Latin America	21.5	23.8	20.2	20.2	21.3	22.0	26.4	34.0	36.1	34.8
Europe	11.5	10.7	11.0	2.3	—	—	—	—	—	—
Canada	10.5	14.0	14.0	13.1	12.2	10.4	9.7	9.0	8.3	7.9
Middle East	9.1	9.1	12.6	14.0	34.4	35.3	32.0	33.0	37.2	39.7
	90.7	93.1	81.0	75.1	87.9	107.7	98.2	101.4	104.7	88.0
Total crude oil	214.2	215.4	211.2	205.2	226.8	245.3	238.1	236.2	232.6	208.3
Natural Gas Liquids										
United States	132.2	134.8	137.4	135.4	131.8	130.3	138.7	132.1	125.2	121.4
Canada	12.4	12.5	11.8	12.8	12.9	11.2	8.9	8.9	8.4	8.0
Latin America	2.3	2.3	2.4	2.6	2.2	1.1	1.2	1.2	1.2	1.4
Europe	.3	.3	.3	.2	.2	—	—	—	—	—
Total natural gas liquids	147.2	149.9	151.9	151.0	147.1	142.6	148.8	142.2	134.8	130.8
Total all liquids	361.4	365.3	363.1	356.2	373.9	387.9	386.9	378.4	367.4	339.1

Note — Operating data for 1967 through 1974 include operating results, in proportion to the Company's stock interests, of nonsubsidiary companies owned 20% or more. Data prior to 1967 include the Company's interest in such companies owned one-third or more.

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
NET NATURAL GAS PRODUCTION — millions of cubic feet daily										
United States	1,433	1,481	1,534	1,566	1,591	1,436	1,429	1,460	1,397	1,330
Canada	238	222	200	179	179	155	127	116	96	87
Latin America	21	28	34	41	48	33	—	—	—	—
Europe	116	94	85	58	40	14	4	4	5	—
	1,808	1,825	1,853	1,844	1,858	1,638	1,560	1,580	1,498	1,417
WELL COMPLETIONS — Net										
United States — Exploratory	53	38	37	21	25	24	24	17	14	40
— Development	136	156	86	70	67	118	98	80	116	202
Outside United States — Exploratory	48	46	37	30	30	26	32	20	30	22
— Development	48	27	39	39	14	19	27	28	63	51
	285	267	199	160	136	187	181	145	223	315
OIL AND GAS WELLS — Net										
United States — Oil	6,184	5,806	5,795	6,004	6,316	6,457	6,387	6,590	6,808	6,873
— Gas and condensate	2,086	2,006	1,945	1,936	1,964	1,997	1,961	1,953	1,946	1,921
Outside United States — All wells	878	851	815	850	829	974	955	1,061	1,033	837
	9,148	8,663	8,555	8,790	9,109	9,428	9,303	9,604	9,787	9,631
NET OIL AND GAS ACREAGE — thousands of acres										
United States	7,203	6,792	5,793	5,382	5,275	4,728	4,618	4,333	4,666	4,995
Canada	7,687	7,444	6,967	6,507	6,273	5,862	4,600	3,563	3,476	2,808
Latin America	13,013	5,830	3,311	696	3,186	4,895	5,008	1,910	2,259	1,934
Europe	1,604	1,397	1,267	1,227	1,424	1,394	1,375	1,238	1,234	1,231
Africa	13,158	9,906	13,816	8,403	9,009	13,860	16,999	18,398	20,739	18,797
Middle East	3,031	3,031	2,893	13,852	13,852	12,762	12,787	2,102	638	638
Southeast Asia	32,086	37,348	31,018	38,852	47,106	57,627	40,000	—	—	—
Australia	5,335	6,072	5,969	6,272	7,290	9,290	10,833	16,978	26,690	24,383
	83,117	77,820	71,034	81,191	93,415	110,418	96,220	48,522	59,702	54,786
REFINERY RUNS — thousands of barrels daily										
United States — Crude oil	373	395	386	371	364	359	356	335	292	249
— Natural gas liquids	150	149	159	157	162	158	159	162	159	156
Outside United States — All liquids	57	66	64	77	93	88	87	68	58	38
	580	610	609	605	619	605	602	565	509	443
REFINERY CAPACITY — thousands of barrels daily										
United States — Crude oil	408	404	404	398	398	390	390	410	410	289
— Natural gas liquids	165	165	165	165	165	165	165	165	165	160
Outside United States — All liquids	87	85	81	100	100	148	147	97	119	56
	660	654	650	663	663	703	702	672	694	505
PETROLEUM PRODUCTS SOLD — thousands of barrels daily										
United States										
Automotive gasoline	286	299	323	311	314	294	279	252	222	188
Aviation fuels	30	27	27	27	35	38	36	36	25	21
Distillates — including kerosene	100	95	101	98	106	109	120	111	97	92
Liquefied petroleum gases	92	91	111	106	114	107	106	124	135	126
Other products	33	41	43	41	47	48	44	43	38	30
	541	553	605	583	616	596	585	566	517	457
Outside United States	107	137	128	141	131	132	114	83	65	41
Total	648	690	733	724	747	728	699	649	582	498
MARKETING OUTLETS	18,786	21,438	23,890	24,562	25,536	25,914	26,155	26,513	27,240	23,677

Note — Operating data for 1967 through 1974 include operating results, in proportion to the Company's stock interests, of nonsubsidiary companies owned 20% or more. Data prior to 1967 include the Company's interest in such companies owned one-third or more.

PRODUCTS AND SERVICES

Sold by Phillips Petroleum Company and Its Subsidiaries

PRODUCTS

Automotive gasolines

Diesel fuel

Aviation fuels — gasolines, commercial and military jet fuels, anti-icing additive

Stove oil No. 1 (Range oil)
Furnace oil No. 2

Residual fuel oils

Liquefied petroleum gases — motor fuel (propane, butane, butane-propane mixtures), commercial propane, butane, butane-propane mixtures, normal and isobutane

Kerosene

Crude oil

Natural gas
Liquefied natural gas

Lubricants — automotive, industrial, farm and ranch, marine, and fleet lubricants; aviation and snowmobile oils

Tires and tubes — passenger car, truck, trailer

Batteries — automobile, truck and bus, farm, marine, small vehicles

Automotive accessories — anti-freeze, auto lamps, spark plugs, wiper blades, filters, belts

Fertilizers:
Anhydrous ammonia
Aqua ammonia
Ammonium nitrate
Urea
Urea-ammonium nitrate solution
Nitrate solution
Ammonium phosphates
Di-ammonium phosphate
Triple super phosphate
Phosphoric acid
Super phosphoric acid
Muriate of potash
Mixed liquid fertilizer solutions

Feed ingredients — urea feed compounds, urea liquor, ammonium polyphosphate

Blasting materials — industrial ammonium nitrate

Asphalt

Wax

Helium — high-purity gas and liquid, and cryogenic hardware

Rubber chemicals:
Butadiene and butylenes
Carbon black
Synthetic rubbers and plastomers
Extender oils
Mercaptans

Construction materials:
Pond lining fabric
Pavement reinforcing fabric
Synthetic rubber emulsions

Plastic resins:
Polyethylenes
Polypropylenes
Polyvinylchloride
Polystyrene
Polyphenylene sulfide
Butadiene-styrene copolymers

Rigid packaging — paperboard and plastic containers for consumer and industrial products

Rigid packaging machinery

Polypropylene packaging material — decorative and functional

Vinyl sheet and film

Plastic tubular goods — plastic pipe and fittings, conduit and duct, corrugated conduit

Custom fabricated plastic products — for the automotive, appliance, radio and TV industries

Other plastic products:
Plastic bottles
Horticulture ware
Bakery handling equipment
Plastic egg flats
Fifth wheel liner
Guy wire guard

Coating or laminating plastics and other materials — to paper, foil and other substrates for the paper, packaging, automotive, food, locker, and specialty fields

Release paper

Special chemicals:
Aliphatic solvents such as pentanes, hexanes, heptanes
Benzene
Binder for solid rocket fuels
Butene-1
Calcium petroleum sulfonate
Cyclohexane
Ethylene
Furan
High-purity hydrocarbons for research and development (available in several grades of purity) — aromatics, cycloolefins, cycloparaffins, diolefins, olefins, paraffins
Hydrocarbon aerosol propellants
Methylvinylpyridine
Mixed xylenes
Odorless solvents
Orthoxylene
Paraffinic naphtha
Paraxylene
Petro-sulfur compounds
  Odorants for natural gas and LP-gas
  Mercaptan intermediates (for agricultural chemicals and other uses) such as ethyl, n-propyl, n-butyl and n-dodecyl mercaptans, and ethylthioethanol
  Sulfolane
  2-Mercaptoethanol

Polymerization solvents
Propylene
Reference fuels
Special fuels
Sulfur
Sulfuric acid
Toluene
Viscosity index improver

Tubing and metal products:
Stainless steel and nickel alloy tubing for aerospace and other industries
Custom fabricated parts for automotive, refrigeration, and other industries
Patio and porch furniture

Synthetic fibers:
Olefin
Polyester
Nylon

Carpet backing

Drilling mud and cement additives

SERVICES

Process analysis, control and information systems for petroleum, pipeline, petrochemical, and other chemical industries

Tanker hauling

Terminaling services
Engineering services
Consulting services — metallurgical
Liquefied natural gas technological services

LITHO IN U. S. A.

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004

PRINCIPAL SUBSIDIARIES AND AFFILIATES

APPLIED AUTOMATION, INC.
FIBERS INTERNATIONAL CORPORATION
PACIFIC PETROLEUMS LTD.
PETROCHIM
PHILLIPS FIBERS CORPORATION
PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA
PHILLIPS PIPE LINE COMPANY
PHILLIPS PUERTO RICO CORE INC.
PHILTANKERS INC.
SEALRIGHT CO., INC.

OFFICES

PRINCIPAL OFFICES

Bartlesville, Oklahoma 74004

80 Broadway, New York, New York 10005

306 South State Street, Dover, Delaware 19901

STOCK TRANSFER OFFICES

Phillips Petroleum Company
80 Broadway, New York, New York 10005

Phillips Petroleum Company
15 Exchange Place
Jersey City, New Jersey 07302

Montreal Trust Company
15 King Street West
Toronto, Ontario, Canada M 5 H 1B4

REGISTRARS

Manufacturers Hanover Trust Company
40 Wall Street
New York, New York 10005

Canada Permanent Trust Company
20 Eglinton Avenue West
Toronto, Ontario, Canada M 4 R 2E2